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Avon's Hicks B. Waldron

Avon fighting short-term emphasis

By Marcia Parker

NEW YORK — Hicks B. Waldron, Avon Products Inc.'s chairman and chief executive officer, believes money managers' obsession with short-term performance affects their proxy voting practices — and he is taking steps to change that.

Among his actions are:

- Eliminating the pressure on Avon's investment managers by extending the performance evaluation period to three years from quarterly;
- Instructing Avon's money managers to keep a company's long-term view in mind when they vote a proxy;
- And, reviewing each manager's votes on shareholder resolutions this proxy season.

Mr. Waldron said he hopes other chief executives will follow suit to foster a longer term investment horizon among pension fund managers.

In an interview with *Pensions & Investment Age* in his stately office at Avon's midtown Manhattan headquarters, Mr. Waldron said the emphasis on short-term performance comes from both sides.

Corporate America has been accustomed to making quarterly performance evaluations, thinking that was the best way to track the investment and returns of company pension funds.

Money managers responded to the pressure for strong quarterly performance by gearing their investment decisions to the short term.

Neither side gained much from that practice, and both sides complained the other wasn't taking a long view, said Mr. Waldron, who has been chief executive of the beauty products and health care services company since 1983.

Dissatisfied with the traditional performance evaluation system, Mr. Waldron said Avon this year instituted the changes with all 12 of its money managers for the $427 million pension fund. Avon has no internal management.

"We told them, 'We won't call you every quarter to see how you've done and shoot you if you don't measure up,' " he said. "For equity managers, we are reviewing performance every three years and for venture capital managers,

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Pensions & Investment Age

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The newspaper of corporate and institutional investing • $4.00 an issue • $80 a year • April 20, 1987

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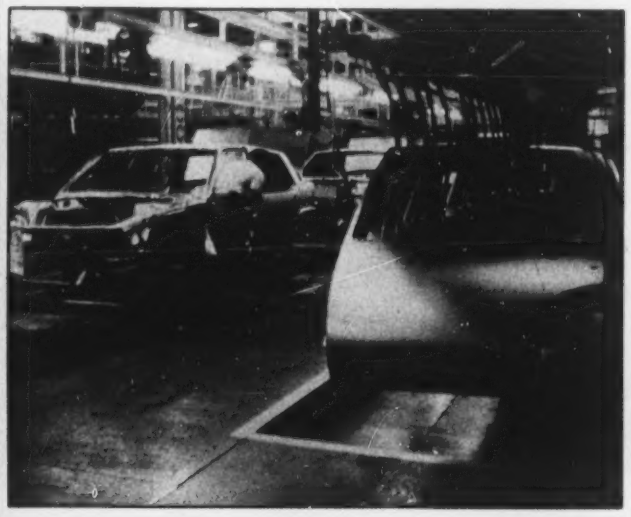
CASH MANAGEMENT: Programs to hedge commercial paper borrowings against rising interest rates are coming back to haunt both Georgia-Pacific Corp. and Sears, Roebuck & Co. — Page 23.

REAL ESTATE: The increasing cost of earthquake insurance combined with its dwindling availability is causing some institutional investors to think twice about commiting their millions to purchase investment properties throughout California — Page 15.



TOP 50 ISSUERS: Plummeting interest rates and an increased interest in acquisitions gave GM, one of whose assembly lines is shown above, and other companies the impetus to seek outside financing in 1986. *P&I Age* takes a look at the top five issuers in 10 sectors — Page 33.

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Pilots pension assets 20% of bid for United

By Chuck Paustian

CHICAGO — Pension assets make up more than one-fifth of the approximately $2.5 billion in financing the United Airlines pilots union needs to raise for its $4.5 billion bid for the airline.

Union leaders expect to use a reversion of $200 million to $250 million in surplus assets from the pilots' overfunded defined benefit plan to initially fund a leveraged employee stock ownership plan. In addition, they hope their members will put about $300 million into a new employer stock option in their defined contribution plan.

Officials of the airline's other two major unions — the International Association of Machinists and Aerospace Workers and the Association of Flight Attendants — say they won't participate in the bid. Cooperation from the other unions and use of their pension assets aren't essential, the pilots contend.

Using pension assets to purchase a huge, healthy company — as the pilots want to do — is one of the most aggressive attempts by labor to influence corporate America.

If the pilots' bid is successful, they'll own the landing rights at United's new O'Hare terminal.

In fact, said John J. Peterpaul, general vice president of the Machinists' transportation department, his union might launch its own bid for United, one he hopes won't use pension assets and "would be more equitable to the employees."

Machinists leaders are consulting with their investment banker, Brian M. Freeman & Co. Inc., Washington, about how to respond to the pilots' bid.

Corey Rosen, executive director of the National Center for Employee Ownership, Oakland, Calif., noted other unions have used leveraged ESOPs to gain influence or control at a company, but not a large, financially healthy, public company like United.

"The corporate restructuring we've seen over the last several years has been nothing but damaging to labor" through reduced pensions, wages and job security, Mr. Rosen said.

"Labor may be getting involved as players in corporate finance

Continued on page 57

U.S. claims part of plan surplus

By Barry B. Burr

EL SEGUNDO, Calif. — The Defense Department has issued a formal claim against NI Industries Inc. to collect more than 10% of the $23 million the company pocketed from terminating an overfunded pension plan, plus accrued interest on the surplus assets.

The Defense Department made the claim April 7 for slightly more than $2.9 million of the surplus assets. In addition, the department is seeking an undetermined amount of accrued interest, dating to Dec. 31, 1983, the effective date of the termination. The assets were distributed May 1985.

NI Industries Inc., based in Long Beach, and a unit of Masco Corp., Taylor, Mich., has resisted sharing the reversion with the government (*Pensions & Investment Age*, Nov. 24).

If NI refuses to answer the claim — either by paying the government or appealing the claim — the Defense Department will collect by reducing payments from ongoing contracts with NI, according to Sam Rousso, public affairs specialist with the El Segundo office of the Defense Contract Administrative Services, a government unit that oversees military contractors.

NI has 90 days to appeal to the Armed Forces Board of Contract Appeals, Washington.

NI executives were unavailable for comment.

The claim is being made as part of a government policy, initiated last year by the Defense Department and adopted by other agencies, to seek refunds or credits for pension cost overcharges by contractors because of terminations, or because plans reach fully funded status as defined by the Internal Revenue Service.

The Defense Department already has received, or has been promised, millions of dollars through agreements to share in termination reversions of FMC Corp., Chicago, and Rockwell International Corp., Pittsburgh, and for credits from fully funded plans of United Technologies Corp., Hartford, Conn., and Lockheed Corp., Burbank. ■

3 plans establish incentive-fee programs

By Chuck Paustian

Three public pension funds put some of their investment managers on performance-based fees, but others are slower to accept the fee structures.

• The $8 billion Oregon Public Employes Retirement System, Salem, has a performance-fee arrangement with BEA Associates Inc., New York, which runs about $500 million in equities for the pension fund, said James C. George, investment manager.

• The $7 billion Los Angeles County Employees' Retirement Association, Los Angeles, placed three managers, running about $2.62 billion, on performance fees, said Maureen Oster, senior finance analyst at the fund.

• The $400 million Dallas Police & Firemen Pension Fund placed three equity managers, running a total of $76 million, on performance-based fees, said Jerry M. Hast, fund administrator.

Industry observers said performance-based fees have not gained the support of more funds because of perceived complications in establishing the arrangements.

"I think people, quite incorrectly, perceive the whole issue as more complicated legally, economically and procedurally than it realiy is," said Theodore R. Aronson, a partner of Aronson & Fogler, Philadelphia, which manages $150 million in assets, all tax-exempt. He said one of the firm's six clients is on a performance-fee arrangement.

Mr. George said the Oregon established the performance fee arrangement with BEA Associates at BEA's initiative.

"You can't really say we're pursuing performance-based fees," said Mr. George. "We'll probably see how this works out for a year or so and then maybe pursue it with our other managers," he said. The fund has 17 domestic equity managers and seven international managers.

Mr. George declined to disclose the details of the fee structure, except to say it is a symmetrical fulcrum fee with a cap and floor. BEA Associates' benchmark is the Standard & Poor's 500 stock index; the firm's fee will be calculated during a rolling three-year period, he said.

He said he hasn't pursued other performance fee arrangements because he's generally content with existing fee structures.

"We feel the money management business is one where performance gets rewarded. I don't know of a business that's more performance oriented," he added.

Ms. Oster said the Los Angeles County fund put two equity portfolios and two fixed-income portfolios under a performance-fee arrangement.

The managers are Capital Guardian Trust Co., Los Angeles, which runs a $1.357 billion equity portfolio and a $474.4 bond portfolio; Stein Roe & Farnham Inc., Chicago, which runs $180 million in equities; and CMB Investment Counselors, Los Angeles, which runs $638 million in fixed income.

Ms. Oster said the equity portfolios have the S&P 500 as the benchmark; Capital Guardian's bond portfolio, the the Shearson Lehman Government/Corporate bond index; and CMB, the Salomon Brothers Broad Investment-Grade bond index.

The fund negotiated a base fee with each manager. "Then one half of that base fee is available for the incentive portion, up or down," she said.

For example, if the base fee was 50 basis points, the maximum fee would be 75 basis points and the minimum fee would be 25 basis points. "That way the manager does get paid a fee," said Ms. Oster, who declined to release the specific amounts involved.

To receive the maximum fee, the manager must surpass the stated bogey by at least four percentage points plus its base fee, she said.

The performance measurement period for each manager may be extended, Ms. Oster added. Stein Roe & Farnham and CMB start with three-year rolling periods, while Capital Guardian has a two-year period.

"The object of the incentive fee is for long-term performance," she said. "We're looking at it as being a longer period of time."

At the end of each time period, fund officials will decide whether or not to extend the measurement period, depending on the effects of the fee structure on such things as performance and risk levels of the portfolios.

The idea for performance fees came from the fund's executives. "We were interested in evaluating the effects of performance fees," Ms. Oster said. "We also had some managers that wanted to negotiate fee increases.

"(Performance-based fees) was a way to manage the fee increases," she said.

Callan Associates Inc., San Francisco, aided the fund in setting up the fee structure.

The Dallas Police & Firemen Pension Fund opted for performance fees to spur performance and to lower fees if the firms underperform their benchmarks.

"We previously had a great number of managers that underperformed the S&P 500 for the past five or six years. We were paying them their normal fee for that underperformance," said Mr. Hast.

Under the performance-fee arrangement

Continued on page 51

Advisers boost cash

Market rise keeps percentage steady

By Fred Williams

Institutional equity managers raised cash during the first quarter of 1987, but reserves as a percentage of equity assets remained unchanged from the year-end cash position of 7.3% because of the record rise in equity values.

According to INDATA, an investment analysis service in Southport, Conn., the amount of cash held by equity managers in their portfolios has increased dramatically. For the INDATA universe alone, the increase in dollar valu of cash reserves was $1.24 billio

The higher dollar amount of cash reserves contributes to speculation there is still plenty of cash being held by domestic money managers to continue to fuel the bull market in equities, at least for the foreseeable future.

While the dollar-weighted average of total assets in cash and equivalents in the INDATA universe held steady at 7.3%, all but one of the investment managers contacted by *Pensions & Investment Age* held higher percentages.

The INDATA universe represents more than $240 billion in total assets in 1,256 institutional equity portfolios. Thus the cash held by these institutions totaled at least $17.5 billion.

Cash reserves ranged from 12% at AmeriTrust Co., Cleveland, to 5% at Alliance Capital Management, New York. During the first quarter, two equity managers increased cash — AmeriTrust and Lincoln Capital Management Co., Chicago — while four reduced cash reserves — Sun Bank, Orlando, Fla.; Harbor Capital Management Co., Boston; Hansen Investment Management Co., San Rafael, Calif.; and Sit Investment Associates Inc., Minneapolis. One manager, Alliance, remained unchanged.

"There is an enormous amount of cash there to buy stocks with," said William P. Kennedy, an Atlanta investment consultant interpreting the INDATA findings. "The money is there and the market is strong.

"The interesting thing is that cash reserves are the same as on Dec. 31 but the (Standard & Poor's 500 stock index) is up 21.3%."

The S&P results for the quarter place it in the 52nd percentile, which means 52% of investment managers outperformed the market in the first quarter. For the 12 months ended March 31, only 22%

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Most new assets*
1st quarter 1987

Firm	($ mil.)
Bankers Trust Co.-Investment	773
Chase Investors Mgmt.	390
Wells Fargo Investment	286
The Travelers	254
Aetna Life & Casualty	230
The Boston Co.	145
Mellon Bank	120
Loomis, Sayles	115
Oppenheimer Capital	104
Pacific Investment Mgmt.	94

Most new accounts*
1st quarter 1987

Firm	New accounts
Morgan Stanley	10
Bankers Trust Co.-Investment	8
Loomis, Sayles	6
Heitman Advisory	5
JMB Institutional Realty	5

*As reported in *Pensions & Investment Age*

Index funds still top draw

By Trudy Ring

Most of the biggest shifts in money management reported in the first quarter involved passive strategies and public pension funds.

Manager hirings reported in *Pensions & Investment Age* during the quarter show index funds bringing in the largest sums. Bankers Trust Co. — Investment Management Group, New York, was the leading manager by far, with $772.7 million in new discretionary asset management business.

Of that, $742.7 million was in stock index funds for major public retirement systems — the New York City Employees', Fire Department and Police Department Pension Funds and the State of Connecticut Trust Funds, Hartford.

Bankers Trust had two other asset management accounts reported in *P&I Age* during the quarter: a $30 million short-term account for May Department Stores Co., St. Louis, and an equity account of undisclosed size for Contel Corp., Atlanta. Two custodial accounts rounded out Bankers Trust's quarter.

But Bankers also had a major index fund account reduced in the quarter. The Alaska Permanent Fund Corp., Juneau, cut its stock index fund to $550 million from $1.3 billion in anticipation of a market correction.

Second in terms of new discretionary assets was Chase Investors Management Corp., New York, with $390 million. The money came from two accounts: a $300 million stock index fund for Unisys Corp., Detroit, and a $90 million bond index fund for Exxon Corp., New York.

Wells Fargo Investment Advisors, San Francisco, a prominent index fund manager, had $286 million in new business reported — $170 million in equities for Pa-

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The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500 stock index, the Frank Russell Co.'s Russell 3000 stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate bond index.

P&I Age March Indexes

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	2.89	21.38	26.24
Russell 3000	2.06	20.58	22.67
Ryan Index	−1.03	0.33	5.89
Shearson Lehman Gov't./Corp.	−0.55	1.48	8.09

Source: Rogers, Casey and Barksdale Inc., and Frank Russell.

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Vol. 15, No. 8 — Pensions & Investment Age (ISSN 0273-5466) is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207. Copyright 1987.

Smith Offshore Exploration Co., which will operate offshore drilling rigs like this one, has attracted $145 million from seven tax-exempt investors for an oil and gas exploration project.

Harvard-led deal attracts 5 more

By Fred Williams

Five major tax-exempt institutional investors have lined up behind Harvard Management Co. Inc. and the Massachusetts Pension Reserves Investment Trust to participate in a $145 million, three-year oil and gas exploration and development joint venture in the Gulf of Mexico and the coastal region.

Harvard Management, the Cambridge, Mass.-based investment affiliate of Harvard University, is the lead investor with a $50 million commitment to the Smith Offshore Exploration Co. drilling program. The $2 billion PRIT also has committed $7.875 million to the program (*Pensions & Investment Age*, April 6).

Besides Harvard, which was instrumental in putting the deal together and in promoting it to other institutional investors, the endowment funds of four other major East Coast educational institutions will join in the exploration program: Yale University, New Haven, Conn., which invested $10.1 million; Wellesley College, Wellesley, Mass., which invested $750,000; Duke University, Durham, N.C. and University of North Carolina at Chapel Hill. The seventh partner is the Kamehameha Schools/Bishop Estate of Hawaii, Honolulu, which invested $3.335 million.

There also are individual investors participating in the deal.

Harvard Management provided the initial funding for the formation of Smith Offshore. Scott Sperling, partner and head of direct and private investing at Harvard, is chairman of the board of Smith Offshore.

The $3.5 billion Harvard endowment also is pumping up to $20 million into acquiring oil and gas reserves through Harken Oil & Gas Inc., Dallas (*P&I Age*, Dec. 8). The Harken deal was Harvard's first oil and gas investment.

Wayne Jones, associate vice chancellor-business and finance at the University of North Carolina, said the Smith deal is the $127 million endowment's first oil and gas investment, with an initial purchase of one $3.375 million unit in the partnership.

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Slower growth reported for portfolio insurance

By Trudy Ring

The flow of pension assets into portfolio insurance programs slowed in the first quarter, growing by $1.772 billion or 4.5% at 19 leading money management firms.

By comparison, during 1986, the amount of assets covered by portfolio insurance increased more than 600%, according to industry experts.

The assets in portfolio insurance, or dynamic hedging, programs at the 19 firms totaled $41.6 billion March 31.

The figures are for U.S. tax-exempt assets only; the 19 firms were listed because, with one significant exception, they represent the bulk of the market.

The exception is Leland O'Brien Rubinstein Associates Inc., Los Angeles, which provides portfolio insurance both directly and through licensees. LOR officials declined to provide statistics for this report.

But reliable sources said LOR and its licensees likely have about $50 billion under management in insured strategies, of which about $22 billion is for LOR and licensees not surveyed for this story. With the addition of the $22 billion, the total in portfolio insurance as of March 31 would be in excess of $63 billion.

(The LOR licensees in the accompanying table are Aetna Life & Casualty Co., Hartford, Conn.; BEA Associates Inc., New York; Centerre Trust Co., St. Louis; and Wells Fargo Investment Advisors, San Francisco.)

Another manager declining to provide figures was Chase Investors Management Corp., New York, which is marketing dynamic hedging primarily outside the U.S. tax-exempt market.

Some managers said the small first-quarter growth of assets covered by portfolio insurance indicates a lessening of interest in the strategy, which involves use of the futures and options markets to provide an assured minimum rate of return.

"I think the standard portfolio insurance (hedging an entire fund or its entire equity allocation) is peaking — there is a general perception that it's not for everyone," said Ed Peters, portfolio manager-structured investment products group at The Boston Co., Boston.

Mike Alex, vice president of Northern Trust Co., Chicago, agreed. "There certainly is an oversupply (of portfolio insurance capacity) right now."

Other managers still report strong interest in the strategy. A few, such as Oppenheimer Capital Corp., New York, and The Boston Co., drew in more assets in the first quarter than they did all of last year. Although The Boston Co.'s Mr. Peters said the traditional approach has peaked, he pointed out there is interest in using portfolio insurance for hedging fund surpluses or increases in equity allocations.

Others said further growth is possible, but getting pension ex-

Continued on page 55

Portfolio insurance assets hedged ($ mil.)

Firm	New business 1st quarter	Total as of 3/31
Advanced Investment Mgmt.	30	430
Aegis Capital Mgmt.	5	40
Aetna Life & Casualty	36	16,253
American National Bank of Chicago	0	100
BEA Associates	128	728
Bankers Trust Co.-Investment Mgmt.	300	3,500
The Boston Co.	200	300
Centerre Trust	200	700
Leland O'Brien Rubinstein	NA	22[a]
Lotsoff Capital Mgmt.	0	75
Mellon Bond Associates	0	500
J.P. Morgan Investment Mgmt.	0	4,217[b]
Morgan Stanley Asset Mgmt.	0	2,000[a]
Northern Trust	50	150
Oppenheimer Capital	600	1,000
Skye Investment Advisors	25	765
The Travelers	13	125
Wells Fargo Investment Advisors	150	10,700
Westridge Capital Mgmt.	35	35
Total	1,772	41,640

[a] *Pensions & Investment Age* estimate [b] As of Jan. 1

Strategy integration comes under debate

By Marcia Parker

New accounting rules and investment models have sparked a debate among pension executives, lawyers and investment managers over strategy integration — whether corporate objectives and pension fund portfolio strategy should go hand in hand.

The concept involves structuring the pension fund's portfolio to match overall corporate strategies.

In the past, some executives have hedged pension portfolios against the company's industry exposure by avoiding stock holdings in that sector. For example, oil company pension funds might avoid oil industry stocks to avoid exposing the fund to the same risks as the sponsoring company.

Strategy integration goes much further, aligning pension fund strategy with larger corporate goals.

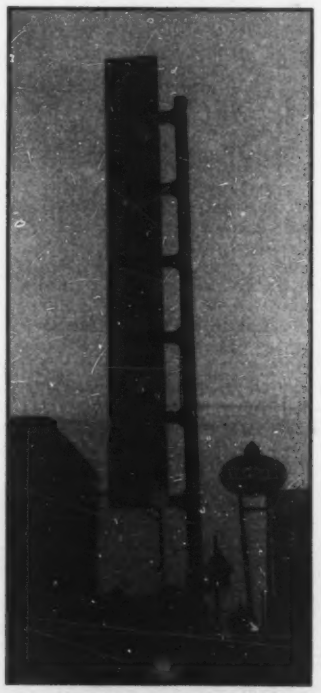
Almost everyone acknowledges taking a look at the concept of strategy integration in light of new pension accounting rules and other factors, but after that the camps are divided, on either conceptual or legal grounds.

There are firm believers like William F. Quinn, American Airlines' assistant treasurer, who is implementing the concept at the Fort Worth, Texas, company through its bond portfolio and equity selection.

Mr. Quinn said the fund constructed a dedicated bond portfolio in 1981 and 1982 with the concept in mind. Recently, it liquidated that $1 billion portfolio and set up a dollar duration bond portfolio, correlating the duration of plan assets and liabi-

Continued on page 54

Texaco plan overfunded



Although it filed for reorganization under Chapter 11, Texaco's overfunded pension plan leaves the PBGC unaffected.

By Barry B. Burr

Texaco Inc. is one of the few companies with surplus pension assets to file for reorganization and protection from creditors under Chapter 11 of the federal Bankruptcy Code.

Although it has become almost routine for companies to file for Chapter 11 in one breath and dump unfunded pension liabilities on the Pension Benefit Guaranty Corp. in the next, PGBC officials believe that won't be the case with Texaco.

"We are not aware of any exposure to either plan participants or the PBGC as a result of the Chapter 11 filing," Royal S. Dellinger, deputy executive director of the PBGC, commented through a spokeswoman.

According to Texaco's latest annual report, the company's U.S. plans were almost 40% overfunded on a termination basis with about $400 million in surplus assets, which could be used to pay creditors or Pennzoil Co.

As of Dec. 31, the plans had $986 million in accrued vested and non-vested liabilities, using an 8% discount rate, and $1.36 billion in assets.

In addition, many institutional investors with large positions in White Plains, N.Y.-based Texaco or Houston-based Pennzoil are holding their shares for now, despite heavy trading in both stocks after Texaco's filing for bankruptcy-law protection.

"The best case here is really to do nothing," said David Dreman, managing director of Dreman & Embry Inc., New York. He said his firm has added somewhat to the 2.3 million Texaco shares it held as of Dec. 31, although it hasn't purchased any since the April 6 U.S. Supreme Court ruling that ultimately led to Texaco's Chapter 11 filing. Dreman & Embry doesn't hold any Texaco bonds or Pennzoil stock or bonds.

At Batterymarch Financial Management, Boston, John Wagstaff-Callahan, trustee, said, "The decision is to hold the position we have." Batterymarch has 2.1 million Texaco shares, or less than 1% of the total 241.5 million shares outstanding.

Mr. Wagstaff-Callahan said Batterymarch would have taken a loss had it sold its Texaco stock the day after the bankruptcy-law filing, but he wouldn't disclose Batterymarch's average purchase price.

Fayez Sarofim, chairman and president of Fayez Sarofim & Co., Houston, said his firm also is holding its 3.8 million Pennzoil shares.

With 9.2% of Pennzoil's total

Continued on page 56

Payden & Rygel index of short maturity assets*
(for month ended March 31)

	March 1987	Quarter ended 3/31/87	Year to date	12 months ended 3/31/87	Yield level monthly change*
	Unannualized total returns				
90-day					
U.S. Treasury bill	0.4408	1.4350	1.4350	6.1442	16
Domestic CD	0.4783	1.5125	1.5125	6.5999	20
Euro $ CD	0.5050	1.4925	1.4925	6.7141	15
180-day					
U.S. Treasury bill	0.3525	1.3850	1.3850	6.3833	29
Domestic CD	0.4283	1.3875	1.3875	6.6768	19
Euro $ CD	0.4217	1.3075	1.3075	6.7465	25
1-year					
U.S. Treasury note	0.2767	1.2850	1.2850	6.8108	25
2-year					
U.S. Treasury note	0.1983	1.2275	1.2275	7.4287	19

*Figures are unannualized total returns. Year-to-date and 12-month figures linked monthly. 90- and 180-day Treasury bill yield level changes on discount basis.
[a]Basis points.
Source: Payden & Rygel, Los Angeles

Units . . .

Continued from page 23

"Of those 12, if one of the divisions has EDI with a supplier; they have all of the part orders on the electronic purchasing system," Ms. Whitson said.

In addition to the purchase orders, Hewlett-Packard electronically sends its suppliers material forecasts detailing the company's needs in the coming months. Ms. Whitson said six suppliers now receive all documents electronically.

The electronic interchange system has led to some significant time saving, mostly by eliminating mail and document-processing delays, she noted. "We've seen some instances where we've shaved eight to 10 days off the (purchasing) cycle."

Officials at all three companies interviewed noted the EDI projects began in one department, but that an executive steering committee is essential to a broader implementation.

Consumers Power's Mr. Wenzel said special committees helped keep both senior management and department heads informed of developments and alternatives. "It has allayed a lot of the fears they have," he said. "We have tackled a lot of these things up front and gotten them resolved early."

Consumers Power has an executive steering committee of executives from customer service, purchasing, accounting and treasury operations that oversees the general implementation process.

The company also has an EDI project committee, which includes representatives from departments such as accounting, purchasing, treasury and accounts receivable that facilitates the implementation process in each department.

Lucie Cole, manager of data services at Hewlett-Packard and the current head of that company's EDI steering committee, agreed a steering committee can help. "It allows us to establish some policies and coordinate some things," she said. "The steering committee provides a body that can talk with people about EDI in general," she added.

"One thing that shows up a lot with EDI is the need for consulting, whether it is from within the company or from the outside," said Ms. Cole.

Mr. Wenzel said his background in data systems has proved valuable in implementing EDI.

"I wanted to get everyone on board before I started," he said.

At Georgia Power, Mr. Goetzman said he didn't want to establish a steering committee until the electronic system was on-line in the purchasing department.

"We felt the steering committee was a good idea, but it would slow down the approval process," Mr. Goetzman said, adding senior management was informed of the project before it was started.

"Basically, we had the senior management of all the financial areas in for about a two-hour breakfast meeting.

"Once we get it going and things start to expand and it affects more areas of the company, a steering committee absolutely has to be set up. We realize that," he added. ■

Accounts . . .

Continued from page 23

is sending copies of the statements from the 10 banks each month to Phoenix-Hecht's Research Triangle Park, N.C., office, to rekey the data onto a floppy disk. Mr. Stavrolakis said Phoenix-Hecht generally returns the floppy disk within 10 days so Mr. Stavrolakis and his staff can evaluate the data using a Lotus 1-2-3 spreadsheet and IBM-compatible personal computer.

Among the utility's main banks are NCNB National Bank and First Union National Bank, both Charlotte, and Wachovia Bank & Trust Co., Winston-Salem, N.C.

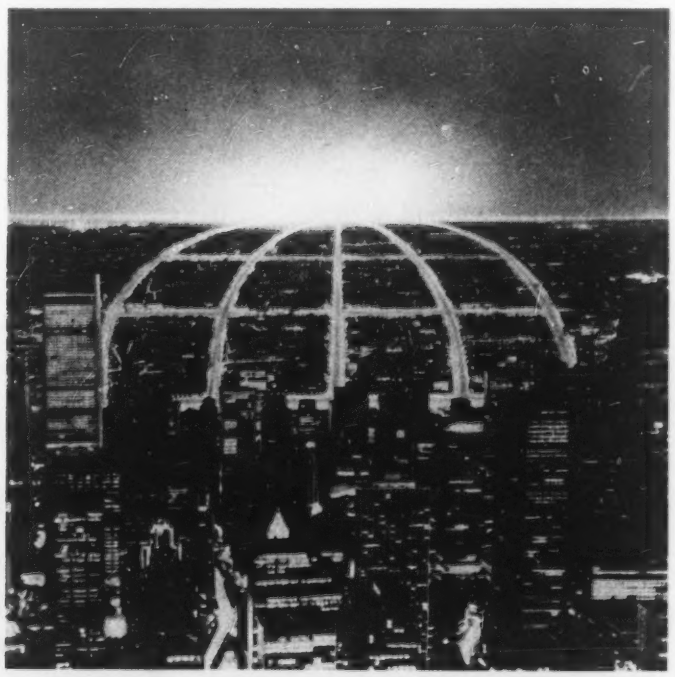
He said the cost involves a monthly charge, generally about $300, for rekeying the data, plus a fixed annual fee. He said Carolina Power, which contracted for a year, negotiated to pay less than the $1,500 list price. He declined to specify the discount.

Mr. Stavrolakis said the utility had looked at an account analysis product sold by Treasury Strategies Inc., Chicago, but at $4,000, "we thought it wasn't worth it."

With the Treasury Strategies product, he noted the utility would rekey the data internally, instead of sending the statements out.

He said he thought the Phoenix-Hecht product was cheaper, even considering the monthly charge for rekeying.

America is poised for new challenges in corporate and investment real estate.



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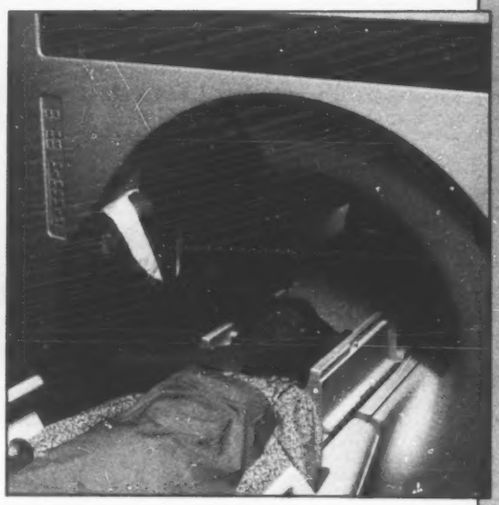
Top 50 issuers



Three of America's "generals" all turned to heavy financing in 1986: GTE Corp., left, financed about $2 billion; General Motors Corp., above, financed $1.7 billion to restructure existing debt and raise funds for general corporate purposes; and General Electric Co. went international to get most of its $3.5 billion.

Leaders tally 20% of financings

By Marci Baker

The top five U.S. issuers in 10 broad industry categories accounted for about 20% of worldwide financing completed by U.S. issuers in 1986, according to data generated by IDD Information Services Inc. for *Pensions & Investment Age*.

Acquisitions and debt refinancings were two major themes motivating the financing activity.

These 50 largest issuers raised at least $85.8 billion — $76.7 billion in public offerings and an estimated $9.1 billion in private placements — domestically and abroad in 1986. That accounts for 20.4% of the $420.3 billion in public and private financings by U.S. issuers worldwide.

The bulk of that financing took place in the United States, where corporations took advantage of the precipitous drop in interest rates and a rousing stock market to raise $71.8 billion. Another $14 billion was generated in overseas offerings of currency-based and Eurodollar securities.

Not surprisingly, the top five issuers in the banking and finance industries accounted for most of the overseas issuing activity. Banks and finance companies, which are continuously scouting financing windows that can provide the lowest cost of issuing, raised almost $10 billion through Eurodollar and foreign currency denominated transactions.

Overall, the top five in those two categories accounted for almost half of the total volume generated by the Top 50.

The five largest banking issuers — Citicorp, J.P. Morgan & Co., Bank of America Corp., Security Pacific and Wells Fargo & Co. — issued an estimated $18.2 billion or 21.2% of the total Top 50 volume.

The leading finance companies — General Motors Acceptance Corp., Ford Motor Credit Co., Asset Backed Securities, Chrysler Financial Corp. and Ryland Acceptance Corp. — raised another $23.4 billion, representing 27.3% of total Top 50 volume.

The financing totals of the Top 50 issuers were based on public and private placement data compiled by IDD and was subsequently verified with the issuer or available public information. In some instances, *P&I Age* was unable to get verification of transactions from the issuer or other sources. In those cases, the transactions were deleted from the universe.

(Also deleted from the rankings because of their quasi-governmental status were the three major agencies, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corp. and the Student Loan Marketing Association. A summary of their financing activities appears on page 48.)

Acquisitions and the refinancing of high-coupon debt were major reasons for companies rising to the top ranks in their respective industries. In 17 cases, acquisitions accounted for all or part of an issuer's financing activities, while in 16 cases, refinancing was cited as a purpose for offerings.

The heated takeover environment of 1986 was most keenly felt in the transportation, retail and service industries. In each, at least three of the top five issuers were there because of acquisitions.

Texas Air Corp. raised more than $1 billion in 1986, almost $500 million of it in common stock and preferred offerings designed to provide funds and expand its equity base to facilitate its acquisition efforts. The company acquired Eastern Air Lines Inc. and People's Express Inc. in 1986.

Safeway Stores Inc. led in the retail arena, with the bulk of its $1.2 billion in capital markets financing done to help take the company private in a $4.3 billion leveraged buy-out led by Kohlberg Kravis Roberts & Co.

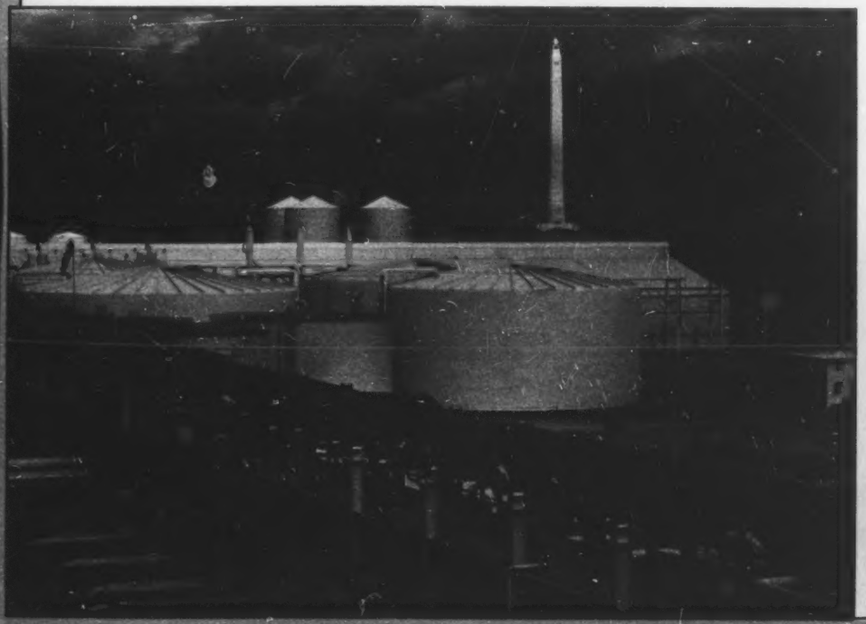
The $3.7 billion buy-out of R.H. Macy & Co. put it in the top slot among service companies. Macy raised $2.7 billion in nonbank debt through the private markets to help pay for the management buy-out.

If acquisition-related activity dominated the top ranks of issuers for these three industries, the trend was felt in others as well. Acquisitions led to financing activity for at least one of the top five issuers in the rail and shipping industry, manufacturing, banking and the health care arenas.

With interest rates reaching their lowest levels in years, many of the Top 50 issuers, like corporations generally, turned to the capital markets to reduce their cost of borrowing. Almost a third raised new debt last year with an eye toward paying off existing issues, replacing floating-rate debt with fixed-rate obligations or refinancing old high-coupon issues with lower interest bonds.

Among the most active in this regard was the utility industry, where a huge volume of debt issued in the high interest rate environment of the early 1980s became available for call in 1986.

Continued on page 48



Occidental Petroleum Corp., one of whose refineries is shown at left, hit the market in March 1986 with debt offerings of $2.5 billion. Officials called it the largest debt offering ever for an industrial company. R.H. Macy & Co. raised $2.7 billion last year to help finance a leveraged buy-out to take the company private.

Photo by Anita Adler

Finance

General Motors Acceptance Corp.

Total financing	$7,387,369,000
Public offerings:	
Debt	$7,381,173,000
No. of issues	36
Private placements	$6,196,000
No. of issues	1
Key underwriters	varied

DETROIT — General Motors Acceptance Corp. used two new types of financings in 1986, a dual-currency yen/Canadian dollar conversion note and a yield curve note.

The automobile financing company also stepped up its efforts to securitize car loans for sale in the capital markets, which GMAC pioneered in 1985.

Richard J. Clout, vice president-borrowing, said the $56.4 million, five-year/five-year optional extension dual-currency bond was issued by GMAC Canada. Investors receive their cash flow in yen for the first five years. If they choose to extend for five years, the security turns into a five-year Canadian bond. If they choose not to extend, they get the principal in Canadian dollars yielding 10⅛%.

For GMAC Canada, the deal is attractive mainly because there is no foreign exchange exposure, Mr. Clout said.

If conditions were right in the foreign exchange market, he said GMAC might do a similar transaction again. He said one attraction was the issue being heavily slanted to the Asian market, and Japanese participation was significant. That is consistent with GMAC's effort to expand its investor base.

The complex $200 million seven-year yield curve note GMAC floated in April 1986 was, in essence, a high-coupon fixed-rate obligation, according to Mr. Clout. The note will pay semiannual 15¼%, less the six-month London interbank offered rate, which meant the investors' yield was variable.

Because GMAC wanted fixed-rate funds, the company swapped the transaction, paid the investment bank six months LIBOR and received a fixed rate. Mr. Clout said the vehicle's usefulness was short-lived because the right conditions were only present for a brief period.

While it wasn't technically an issuer, GMAC and First Boston Corp. scored high points in 1986 for innovative financing using its automobile loans in the new asset-backed securities market.

The biggest deal was GMAC's sale of some $4.2 billion of below-market interest rate loans to First Boston's Asset Backed Securities Corp. It helped reduce the financing subsidiary's increased leverage that came as a result of the low-cost automobile loans.

The $4.2 billion face value of GMAC loans backing the securities was made up of about $2.3 billion of 2.9% loans with a scheduled maturity of 36 months and about $1.9 billion of 4.8% car loans with scheduled maturities of 48 months.

Mr. Clout said the asset-backed securities market was a new one for the company with a somewhat new investor base, and First Boston's Asset Backed Securities Corp. structure opened a new vista. GMAC sold the auto receivables to Asset Backed Securities and ABS issued the straight debt to investors. By year end, GMAC had sold some $8.8 billion in auto loans through that structure.

GMAC raised about $5.245 billion in 21 transactions in the United States and 15 transactions totaling approximately $2.142 billion overseas. The 10 foreign swap-driven deals were denominated in several foreign currencies, including yen, Australian and Canadian dollars and British pounds.

Among the underwriters GMAC used were Morgan Stanley & Co., Merrill Lynch Capital Markets, First Boston Corp. and Salomon Brothers Inc.

Ford Motor Credit Corp.

Total financing	$5,326,127,000
Public offerings:	
Debt	$4,845,536,000
No. of issues	28
Private placements	$480,591,000
No. of issues	4
Key underwriter	Goldman, Sachs

DETROIT — Ford Motor Credit Corp. raised $4.15 billion in the U.S. public markets in 20 transactions ranging from $99 million to $299 million and raised almost $1.2 billion in 12 deals in the international markets in 1986.

W.F. Blood, vice president and treasurer, said Ford Motor Credit diversified its financing sources in the international market, which has led to lower rates and lower borrowing costs. The company was able to offer a large volume of issues at attractive rates in different markets.

One of its most noteworthy deals came in October when Ford issued $200 million of debt via book entry, a first in the corporate debt market. The three-year notes were priced at a slight discount to yield 7.17%. Since then, Ford has done several more book-entry issues.

The other innovative offering was its $200 million annuity note issue, which was managed by Goldman, Sachs & Co. It was the first corporate annuity note issue featuring level debt service.

The five-year, $200 million issue provides duration matching for funding amortized assets. Cash flows are structured the same way as a home mortgage, with the debt repaid during the five-year period in equal amounts on a quarterly basis. The investor gets larger payments of interest and principal throughout rather than getting interest only in the early years and all the principal at the end.

Mark Erskine, assistant treasurer-debt management, said the annuity note made sense for Ford Motor Credit as an asset-liability match because the debt liquidates very similar to the way the company's assets liquidate with automobile owners paying down their loans.

The issuer also raised $729.9 million in 10 deals denominated in foreign currencies, including yen, European currency units, Australian and Canadian dollars, British pounds and Swiss francs.

Goldman, Sachs was lead underwriter in 18 of its 32 public offerings for the year. Underwriters tapped to lead other deals included Merrill Lynch Capital Markets, Nikko Securities, Banque Paribas Capital Markets and Salomon Brothers Inc.

Asset Backed Securities

Total financing	$4,171,025,000
Public offerings:	
Debt	$4,171,025,000
No. of issues	6
Key underwriter	First Boston

NEW YORK — First Boston Corp.'s Asset Backed Securities Corp. pioneered the emerging asset-backed securities market in 1986, selling a record $4.171 billion in securities backed by auto receivables to hungry investors.

Although listed as six individual issues, the company offered only two issues, each with three tranches, backed by General Motors Acceptance Corp.'s auto receivables.

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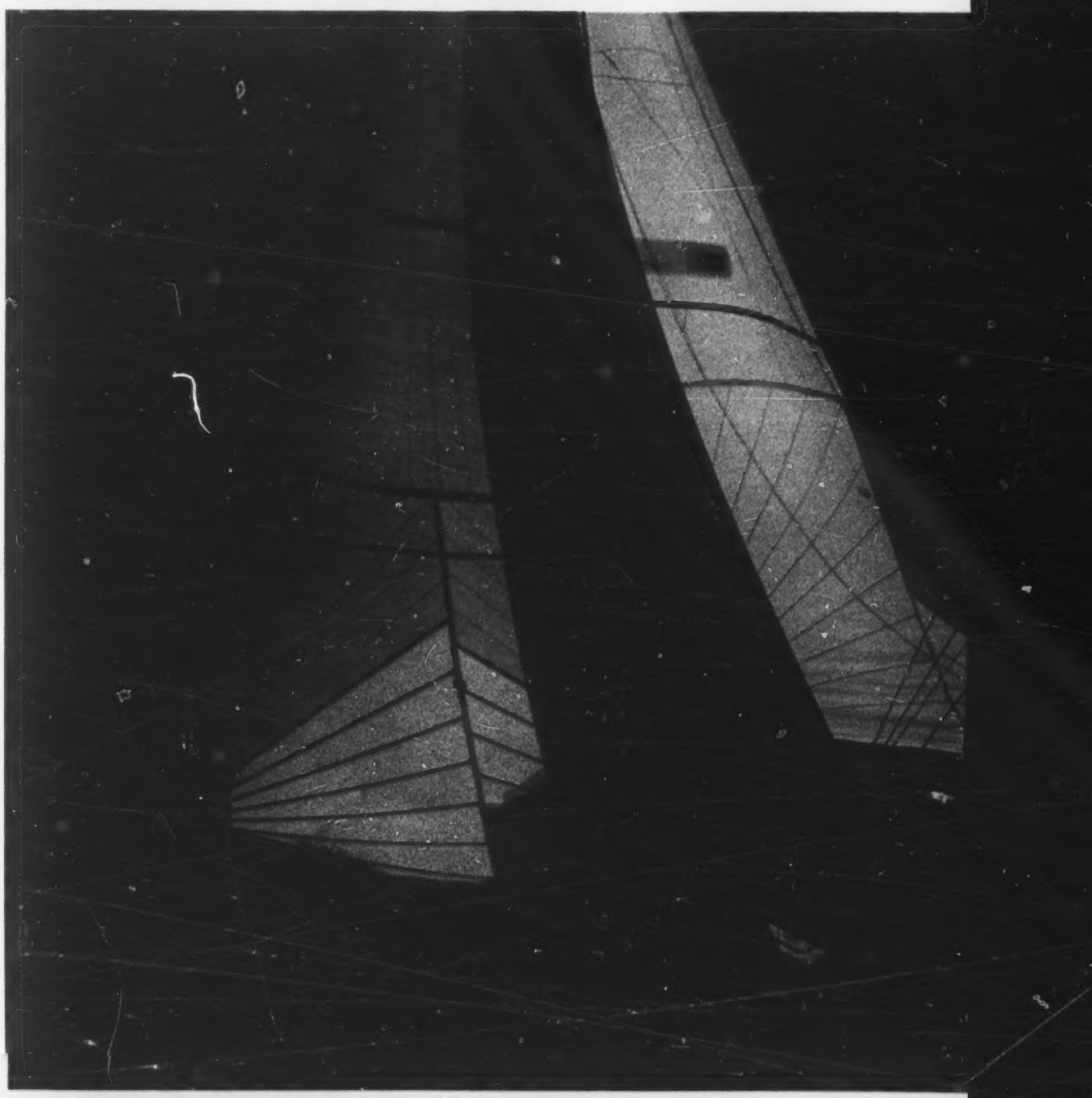

First Boston set up this limited purpose finance subsidiary last summer to issue the first multi-class obligations collateralized by automobile-related certificates. First Boston aims to issue more asset-backed securities, using assets other than car receivables.

Hailed as adding a new dimension to the asset-backed securities market, the initial First Boston deal last October defined the potential investing community for these types of securities and introduced a structure for issuing the securities that previously had only been used in the mortgage arena. It was patterned after a collateralized mortgage obligation.

First Boston set up Asset Backed Securities Co., a special-purpose subsidiary, which purchased GMAC's below-market interest rate loans at a discount, then packaged them in a three-tranche offering of securities.

The nearly $4 billion initial offering consisted of $2.095 billion of securities with an average life of 1.05 years, yielding 6.3% on a semiannual basis; $585 million of securities with an average life of 2.2 years and a yield of 6.96%; and $1.32 billion of securities with an average life of 3.07 years and a 7.21% yield.

First Boston increased the size of the first deal to $4 billion from $3.2 billion, then cut the yield on the securities in response to strong investor demand.

Riding on the success of its first deal, First Boston came back to the market in December, selling another $170 million-plus of securities backed by GMAC auto receivables.

The second offering consisted of $95 million of securities with an average life of 1.09 years yielding 6.25%; $25.019 million of securities with an average life of 2.24 years yielding 6.65%; and $60.082 million with an average life of 3.13 years yielding 6.85%.

Investors snapped up the issues immediately, and several tranches of each deal were oversubscribed. Other investment banking firms have since jumped on the bandwagon, and other kinds of receivables are being used as collateral.

Chrysler Financial Corp.

Total financing $3,500,000,000
Debt $3,500,000,000
No. of issues 31
Key underwriters .... Salomon Brothers, Morgan Guaranty, Merrill Lynch, Banc Paribas

TROY, Mich. — Chrysler Financial Corp. made 15 domestic and 16 European offerings in both the private and public markets that totaled $3.5 billion in medium- and long-term financings. Offerings placed abroad accounted for $1.3 billion of the total.

The company also met its medium- and long-term financing requirements through the private sale of $1 billion in retail installment receivables. These receivables were auctioned to a group of 14 U.S. and foreign banks in the largest sales transaction in company history.

Chrysler also sold $250 million of receivables in a public offering through a subsidiary, Chrysler Auto Receivables Co.

The certificates for the automobile receivables represent an interest in a pool of retail passenger-car and light-truck installment sales contracts. The certificates, issued in July, carry a 7½% coupon and were offered at 99.95% to yield 7.422% on a semi-annual basis.

Proceeds from the offering were paid to Chrysler Financial in partial payment for the installment sales contracts.

Chrysler Financial had $7.7 billion in commercial paper outstanding at year end.

In July, Chrysler Financial purchased the receivables and certain assets of the inventory financing division of Westinghouse Credit Corp., which was renamed Chrysler First Wholesale Credit Inc. The Westinghouse unit had net receivables outstanding of $423.3 million July 1.

Ryland Acceptance

Total financing $2,964,831,000
Public offerings:
Debt $2,964,831,000
No. of issues 41
Key underwriters ..... First Boston, Shearson Lehman, A.G. Edwards, Wheat, First

RICHMOND, Va. — Ryland Acceptance Corp. issued $2.9 billion of securities in 1986, mostly collateralized mortgage obligations.

Ryland Acceptance, a unit of Ryland Mortgage Co., acts as a conduit for marketing mortgage-backed securities to the secondary market. The parent company, The Ryland Group Inc., builds single-family homes.

The debt issued by Ryland Acceptance is secured by mortgage-backed securities and mortgage loans acquired from RMC and by notes receivable from others that are pledged as collateral.

Ryland Acceptance received $8 million in bond participation fees, a 320% increase from the $1.9 million received in 1985.

Proceeds from the sale of the bonds are used by the issuer to purchase mortgage loans from Ryland Mortgage and to fund loans to the finance companies participating in the issuance of the bonds.

Banks

Citicorp

Total financing $9,231,214,000
Public offerings:
Common stock $232,500,000
No. of issues 1
Debt $8,051,314,000
No. of issues 43
Private placements $947,400,000
No. of issues 14
Key underwriters ..... varied

NEW YORK — Citicorp had two unusual offerings in 1986, variable-coupon renewable notes, or VCR, and perpetual debt in the form of subordinated bank adjustable-rate capital securities, called BANCS.

The VCR, as it was dubbed, was first used by Citicorp in June and investors snapped up the issue within hours. It is designed to give issuers long-term funding at short-term rates.

Since then, the VCR has caught on and Goldman, Sachs & Co., which managed Citicorp's issue, has underwritten several others.

Citicorp's $500 million offering basically was a floating-rate note. Robert M. Butcher, vice president, explained the coupon floats 75 basis points over the 91-day Treasury bill rate until the issuer is informed of the investor's intention to redeem the note. Then the coupon drops to 25 basis points over the Treasury bill rate for three quarters.

The initial maturity is one year, but at the end of each quarter when the coupon is paid the security automatically renews itself for an additional quarter unless the holder tells the issuer it wants to sell the bonds on the secondary market or put them back to the company.

Investors are attracted because the latter feature gives the security the potential to be held indefinitely.

The longer the VCRs are outstanding, the more the savings to the issuer, because the cost of is-

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suing longer than one-year debt probably would be much higher than the 75 basis points over the T-bill rate.

Citicorp also raised $500 million in primary capital in November in the Euromarket, with the perpetual-debt BANCS that cost 15 to 20 basis points more than traditional primary capital debt. Although it was more expensive, the bank has 30 years before investors can put the bonds back and exchange the securities for common or preferred stock.

The bonds' rate was set to float 37.5 basis points over the London interbank offered rate. The floating rate was another advantage to Citicorp because the bank could match it with floating-rate bank assets.

Citicorp used the proceeds from the sale of the BANCS for corporate purposes, principally to fund investments in or extensions of credit to its banking and nonbanking subsidiaries and affiliates.

Mr. Butcher said the financing vehicle was a response to the federal government guidelines allowing bank holding companies to issue perpetual debt and count it as primary capital. He said the deal was done in the Euromarket because British clearing banks had done it before.

Goldman, Sachs was lead underwriter for the offering of the $500 million of floating-rate perpetual bonds. Citicorp and Merrill Lynch Capital Markets were co-underwriters.

For its other offerings, Citicorp tapped Salomon Brothers Inc.; First Boston Corp.; Goldman, Sachs; Daiwa Securities; and Merrill Lynch.

J.P. Morgan & Co.

Total financing	$4,559,456,000
Public offerings:	
Debt	$2,454,833,000
No. of issues	19
Other	$2,104,623,000
No. of issues	34
Key underwriters	varied

NEW YORK — J.P. Morgan & Co. issued long-term fixed- and floating-rate debt totaling $1.02 billion in 1986. At the end of the year, $574 million of that amount constituted secondary capital.

Both the availability of long-term funds at attractive rates and the bank's liquidity management strategy influenced the decision to issue long-term debt.

Interest-bearing deposits averaged $34.9 billion in 1986 and $31.6 billion in 1985. The increase was in large part due to the issuance of medium-term deposit instruments in the domestic and Euromarkets.

J.P. Morgan was an active issuer in the Euromarket. For example, the company in June offered $100 million of 8½% notes due October 1993. The subordinated notes pay no interest until October 1991, when 5.25 years of accrued simple interest will be payable. An annual interest rate of 8½% will be paid after October 1991.

In July, J.P. Morgan offered the first subordinated Euroyen issue approved by Japan's Ministry of Finance. The company sold 20 billion yen in subordinated notes due 1994. The notes, which raised the equivalent of $125 million, were priced at 101⅜% and carry an annual coupon of 6%.

J.P. Morgan made another yen offering in October when the bank's London office sold $100 million of five-year floating-rate deposit notes in the Euromarket. The notes were priced at 101%.

The notes pay interest semiannually at 0.1 times the sum of six-month yen London interbank offered rate and ⅛% for the first two years, and at six-month yen LIBOR plus 2.15% after that.

Also in October, the company announced the offering through its London office of $100 million 7¼% deposit notes sold in the Euromarket. The notes were priced at 100⅝%.

Domestic offerings include $300 million of five-year senior notes carrying a semiannual coupon of 7.1%.

J.P. Morgan's underwriters include First Boston Corp.; Morgan Guaranty Trust Co.; Merrill Lynch Capital Markets; Salomon Brothers Inc.; E.F. Hutton & Co.; The Nikko Securities Co.; Shearson Lehman Brothers Inc.; Bear Stearns & Co.; PaineWebber Inc.; Goldman, Sachs & Co.; Nomura Securities International Inc.; and Kidder, Peabody & Co.

Bank of America Corp.

Total financing	$1,891,643,000
Public offerings:	
Debt	$514,000,000
No. of issues	1
Private placements	$1,377,643,000
No. of issues	9
Key underwriters	varied

SAN FRANCISCO — Bank of America Corp.'s most unusual and innovative offerings in 1986 were Certificates of Automobile Receivables, known as CARS.

The bank structured public offerings and private placements of more than $1.35 billion of CARS, which were designed by Salomon Brothers Inc. The certificates represent interests in a pool of motor vehicle retail installment sale contracts and security interests in those vehicles.

There are several benefits to the bank, including providing a cost-effective source of medium-term funds. It also allows the bank to leverage its capital base across a broader range of activities. The bank also has the flexibility to decide if it wants to hold or distribute the loans.

Townsend Walker, vice president-manager of retail asset sales, said pooling and securitizing consumer loans is a major part of the bank's strategy as it tries to capitalize on its capability to originate quality retail loans.

The bank continues to service the loans and to maintain customer relationships while the proceeds of the offerings are used for relending. He said that through CARS, the assets flow to whichever investors have the highest demand to hold them at a given time.

The largest of Bank of America's three 1986 CARS transactions was a $737 million private sale of auto loans and contracts to Bankers Trust Co., which was completed at year end. Bank of America and Bankers Trust arranged the offering. The security was unrated. The certificates had a coupon of 6.82%.

Bank of America also structured a public offering of $514 million of CARS in December. Salomon Brothers Inc. led the underwriting syndicate offering the certificates, which had a coupon of 6.8%. It was rated AAA by both major rating agencies.

The $514 million public offering and the $737 million private sale were the largest transactions of their kind to date by a commercial bank.

Bank of America's smallest offering was a $100 million issue of CARS that was privately placed by Salomon. It was rated AAA by Standard & Poor's Corp. The certificate had a coupon of 7.65%.

All three CARS had a five-year stated maturity and an average life of 1.5 years.

Mr. Walker said the bank plans to expand into other asset-backed securities. In early 1987, the bank structured a public offering of $400 million of certificates in a portfolio of receivables selected from its California Classic credit card accounts. The bank said it was the first public transaction

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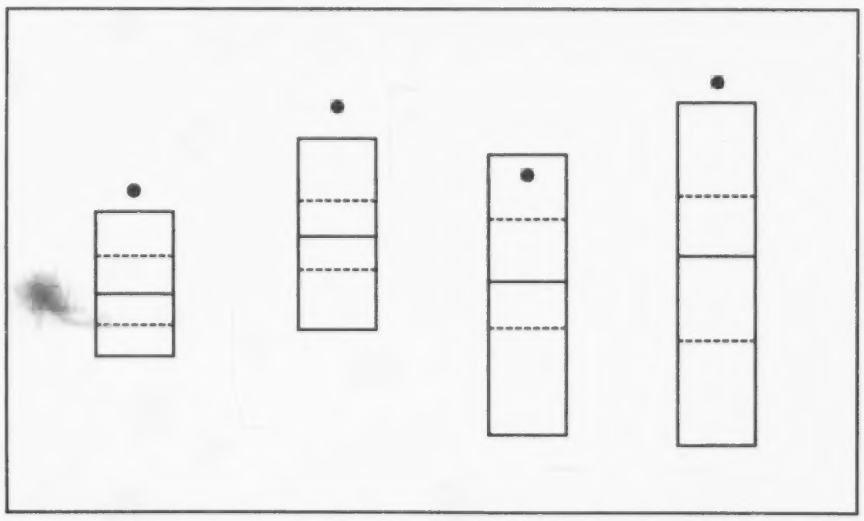

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CCI Return (●)	19.9	26.4	21.9	27.3
SEI Ranking*	3	1	7	1
S&P 500	13.8	19.9	18.5	18.7

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involving the sale of credit card receivables.

The certificates, which had a coupon of 6.9%, were rated AAA by both rating agencies. They represent undivided interests in the California Credit Card Trust 1987-A. The syndicate that handled the underwriting was led by First Boston Corp.

Security Pacific Corp.

Total financing	$1,323,758,000
Public offerings:	
Preferred	$150,000,000
No. of issues	2
Debt	$1,115,358,000
No. of issues	10
Private placements	$58,400,000
No. of issues	6
Key underwriters	varied

LOS ANGELES — Security Pacific Corp. issued $616 million of its $1.3 billion in offerings in non-dollar-denominated debt, including the first five-year, floating-rate Australian-dollar issue.

Kenneth Sherman, senior vice president and assistant treasurer, said the bank's $123.7 million (U.S.) floating-rate issue, which was priced at par and non-callable for three years, was underwritten by Salomon Brothers Inc. The notes pay quarterly interest at a rate of 100 basis points below the 90-day Australian bank bill rate. Security Pacific was able to get floating-rate U.S. dollars in return for the Australian dollars at a lower cost than any floating rates of the past year. Mr. Sherman said the floating rate note was a funding alternative to its U.S. commercial paper program and the proceeds were used to pay down that debt.

Security Pacific also offered a $91 million Dutch gold floating-rate note, two dutch auction preferred stock deals, and some debt denominated in Australian and New Zealand dollars and yen.

The bank issued $422.2 million overseas and $901.6 million in the U.S. market, including $843.2 million in public offerings and $58.4 million in private placements.

Wells Fargo & Co.

Total financing	$1,240,575,000
Public offerings:	
Common stock	$432,000,000
No. of issues	2
Preferred	$250,800,000
No. of issues	4
Debt	$557,775,000
No. of issues	5
Key underwriter	Morgan Stanley

SAN FRANCISCO — Wells Fargo & Co. raised more than $1.2 billion in 1986, including a large chunk to finance its $1.07 billion acquisition last May of Crocker National Corp. from Midland Bank PLC.

In conjunction with the acquisition, Wells Fargo issued $342 million in common stock, $177.3 million in dutch auction preferred stock, and $73.5 million in adjustable-rate preferred stock. The balance was funded by borrowings. The financing for the Crocker acquisition was designed to raise Wells Fargo's capital ratios. The combined company's primary capital position was stronger at year-end 1986 than 1985.

Proceeds from the rest of the bank's traditional issues were used for general corporate purposes. One issue was a $57.9 million New Zealand dollar-denominated note.

Wells Fargo & Co. is the holding company and does the bulk of the financing for itself and Wells Fargo Bank.

Manufacturing

General Electric Co.

Total financing	$3,491,236,000
Public offerings:	
Debt	$3,491,236,000
No. of issues	12
Key underwriters	varied

STAMFORD, Conn. — Although lower U.S. interest rates led many issuers to rely on basic domestic debt financings in 1986, General Electric Co. turned often to Eurodollar and currency-related deals for its financing.

The issuer netted $3.5 billion in 12 debt offerings in 1986, with proceeds used for general corporate purposes and to help finance its $6.8 billion acquisition of RCA Corp. Eight of those transactions were overseas or currency-based transactions. The company's four domestic-dollar deals, however, accounted for $1.8 billion or 51% of its total financing volume.

In its overseas financing activities, GE dipped into the markets three times to issue extendible securities totaling $800 million.

In March and April, the company offered $300 million of 8% Eurodollar extendible notes due 2006, $300 million of 7⅜% extendibles due 2006 and $200 million of 7% extendibles due 1998.

The interest rates on the three issues will be subject to annual adjustment at the company's option beginning in 1993, 1991 and 1989, respectively. In addition, GE will have the option to redeem some or all of the issues at the reset dates, once they begin. Investors get the option to hold the securities or put the bonds back to the company and have their principal returned.

GE also was among U.S. issuers tapping the emerging Australian-dollar market last year, issuing in May about $108 million of three-year notes. The 12¼% notes netted GE about $106 million after underwriting fees. To minimize currency risk, the company swapped its Aussie-dollar obligation with another entity to obtain a fixed U.S.-dollar interest cost of 7.67%.

Other international GE offerings included a Euroyen deal, providing proceeds of $202.4 million; two straight Eurodollar deals netting $466.2 million; and an offering of Eurodollar discount notes with warrants that provided proceeds of almost $110 million.

GE was among issuers to flood the market with debt offerings in the first part of the year in an effort to take advantage of the sharp drop in interest rates. It launched a $300 million of 30-year sinking fund debentures in mid-March carrying a coupon of 8⅝%. It soon followed with three shorter-term deals each totaling $500 million. Two consisted of three-year notes with 7⅛% and 6⅞% coupons, while the third consisted of five-year notes carrying a 6⅞% coupon.

Lead underwriters on GE's domestic transactions included Merrill Lynch, Salomon Brothers Inc. and Morgan Stanley & Co. Inc. Its lead managers on overseas deals included Daiwa Securities, Yamaichi International and Nikko Securities Corp.

BCI Holdings Corp.

Total financing	$2,500,000,000
Public offerings:	
Debt	$2,500,000,000
No. of issues	4
Key underwriter	Drexel Burnham

CHICAGO — BCI Holdings (formerly Beatrice Cos. Inc.) raised $2.5 billion in the U.S. debt markets in 1986 to help finance the $6.2 billion leveraged buy-out of the company by Kohlberg Kravis Roberts & Co., New York.

The April debt financing, solely managed by Drexel Burnham Lambert Inc., consisted of four issues, all priced at par: $600 million of 11%, 10-year senior notes; $800 million of 12½%, 12-year senior subordinated debentures; $950 million of 15-year subordinated debentures with a 12¾% coupon; and $150 million of 15-year floating rate subordinated debentures with an 11⅛% coupon.

In addition to the high-yield debt offerings, financing for the buy-out included $4.1 billion of bank debt and $497 million of equity provided by KKR, BCI Chairman Daniel Kelly and other members of BCI management.

Proceeds from the debt offerings were used to pay off old Beatrice debt, working capital and to pay for expenses related to the leveraged buy-out.

Terms of the bank debt called for BCI to sell off $1.45 billion of assets within 18 months to repay some of the bank loans. BCI proceeded with asset sales almost immediately.

By year end, asset sales completed or announced included its Avis Car Rental unit, its knitwear division, its soft-drink division and the International Playtex division. Beatrice Leasing Co., Webcraft, the warehouse division and the dairy products unit also have been sold.

Some $1.3 billion has been realized by the sales, with proceeds going to pay down bank debt. The company will net another $2.5 billion when all the transactions are closed.

Among BCI's cost-cutting measures was the exchange, in August, of redeemable preferred stock outstanding prior to the buy-out for $1.25 billion of 15¼% exchange debentures, according to Morgan Stanley & Co. research. The swap will provide BCI with a $90 million savings annually. BCI realized another $20 million savings from the renegotiation of its bank debt.

General Motors Corp.

Total financing	$1,681,059,000
Public offerings:	
Debt	$1,681,059,000
No. of issues	7
Key underwriters	varied

DETROIT — Falling interest rates led to stepped-up capital markets financing activity by General Motors Corp. in 1986, as the company sought to restructure existing debt with the cheaper issues and raise funds for general corporate purposes.

The company was among issuers flocking to debt markets the first part of the year to take advantage of the low yields offering the cheapest financing costs since the late 1970s. Overall, GM raised almost $1.7 billion in seven offerings in the United States and abroad.

Like others, its theme for domestic financings was "back to basics."

GM's first deal of the year was a $500 million offering in mid-April of 30-year bonds carrying an 8¼% coupon and a traditional 10-year call feature. Priced to yield 8.2%, the deal provided the issuer with $496 million in net proceeds. Two subsequent domestic offerings were shorter-term transactions and raised almost $700 million.

Overseas, GM had more esoteric taste. The company raised $481 million in four overseas offerings last year — all currency-related transactions.

In May, it stepped into the Swiss market for the time to raise $165 million with an offering of securities using the controversial foreign interest payment structure.

The securities are perpetual, reverse dual-currency bonds whose interest, in contrast to conventional dual-currency issues, is payable in dollars and whose principal is payable in Swiss francs. The deal provided investors the option to put back the bonds to the company and receive their principal every 10 years at a fixed currency exchange rate. But investors must take the loss if that pre-set exchange rate at issuance is higher than the exchange rate in effect at the time the put can be exercised. Meanwhile, the bonds also allow the company to call the bonds every 10 years at the same exchange rate — a feature that provided built-in protection against currency risk.

Foes of the structure argued the issuers effectively were getting very cheap 10-year financing at the expense of investors. The securities put too much currency risk on the shoulders of investors, they argued, even though the investors were compensated for the

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New Issue / April 8, 1987

$432,200,000

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6,764,000 due August 15, 1991	59,683,000 due February 15, 1994
6,764,000 due February 15, 1992	110,331,000 due August 15, 1994
6,764,000 due August 15, 1992	74,004,000 due February 15, 2001

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risk in the form of higher Swiss-market coupon rates. The GM issue carried a 7% dollar-denominated coupon, scheduled to be reset every 10 years at 50 basis points below the prevailing 10-year U.S. Treasury rate.

The company launched three more foreign currency deals before the year was out: a deutsche mark-denominated offering with proceeds of $91.2 million, a Euroyen offering netting $132 million and another Swiss franc deal netting $100.5 million.

Lead underwriters included Salomon Brothers Inc. and Morgan Stanley & Co. Inc. in the United States, and Credit Suisse and Credit Suisse First Boston overseas.

The Henley Group

Total financing	$1,224,000,000
Public offerings:	
Common stock	$1,224,000,000
No. of issues	1
Key underwriters	Lazard Freres, First Boston, Merrill Lynch

LA JOLLA, Calif. — The Henley Group made its way into the top five manufacturing issuers of 1986 with the largest initial public stock offering ever.

The company raised $1.2 billion through the sale of 60 million shares of common stock at $21.25 a share in May. The total was a far cry from the $200 million Henley officials said they would raise in March.

But unbridled demand from institutional investors and the bull market led the company to increase its stock offer to $500 million in April and ultimately to $1.2 billion in May. About 95% of the offering was sold to institutional investors.

Size wasn't the only distinguishing factor of the Henley deal. Equally compelling was that such strong demand could be created for a company on the merits of its management team rather than a track record as an independent entity.

The Henley Group comprises 35 unrelated, mainly unprofitable businesses spun off from Allied-Signal Inc. Its core businesses are health-care technology, energy technology, engineering, construction materials and chemicals.

The group's strongest selling point is Michael Dingman, its chairman and chief executive officer, who has an enviable reputation as a corporate manager. Mr. Dingman had built Wheelabrator-Frye into a $1.5 billion company through acquisitions before selling out to The Signal Cos., which later merged with Allied Corp.

In building up Henley, the management's strategy is one of selective acquisition and divestiture. Proceeds from the IPO, along with a $3 billion revolving credit agreement established with a syndicate of U.S. and foreign banks in December, will be used toward this goal.

Union Carbide Corp.

Total financing	$1,015,000,000
Public offerings:	
Common stock	$650,000,000
No. of issues	1
Private placements	$200,000,000
No. of issues	1
Other	$165,000,000
Key underwriters	First Boston

DANBURY, Conn. — Union Carbide Corp. came full circle in 1986, beginning the year with a recapitalization plan that put an additional $2.5 billion of debt on its books and ending the year with another recapitalization plan that wiped out virtually all of that debt.

The bulk of the company's $1 billion in capital markets and private placement financings during the year were related to its year-end debt reduction drive.

In November 1986, Union Carbide launched a tender offer for $2.5 billion of high-interest debt issued in January as part of a recapitalization plan designed to enhance shareholder value and repel a hostile takeover by GAF Corp. Although initial cash for the offer came from $3 billion in bank loans and a short-term bridge facility, Union Carbide immediately turned around to repay some of those loans with $850 million in proceeds from a common stock offering and a private placement.

The January recapitalization called for the repurchase of 38.8 million shares in exchange for $776 million cash and $2.5 billion in 13½% to 15% debt securities. In connection with the exchange offer, the company also sold its consumer products businesses and declared a special cash dividend to stockholders for the excess sale proceeds over the businesses' book value.

The exchange offer bonds increased Union Carbide's debt load to about $5.5 billion, with interest expense in 1986 almost doubling to $543 million.

To reduce interest costs and get out from under covenants tied to the bonds that limited its ability to restructure, Union Carbide launched another recapitalization in November. It offered to pay bondholders a 24% premium to surrender the $2.5 billion in debt, at a total cost of $3 billion.

Initial financing for the tender offer came from $2 billion in two-year bank loans with an initial interest rate of about 7.9% and $976 million in a short-term bridge loan from First Boston Corp., which had an initial rate of 11½%.

But by year end, Union Carbide had reduced these obligations to $1.1 billion and $125 million, respectively, with proceeds from its stock offering and private placement of debt.

In December, the company issued 30 million shares of common to the public at $22.50 a share to net $650 million. Another $200 million was raised through the private issuance of debt — $95 million of 8.6% of senior notes due 1989 and $105 million of 9.1% senior notes due 1990. Another $875 million was repaid from the proceeds from earlier sales of assets and the sale-leaseback of its Danbury headquarters.

This month, Union Carbide moved to pay off the remaining $125 million bridge loan and further reduce its bank debt through a $650 million offering of debt.

Union Carbide expects to save more than $100 million annually in interest expense as a result of the latest recapitalization. The interest savings is expected to offset any dilution that otherwise would have occurred through the December issuance of stock.

Outside of its recapitalization-related financings, Union Carbide also completed a number of project and lease-related financings last year. At least $165 million was raised through private placement transactions with investment banks, including $125 million interim financing with Salomon Brothers Inc. for a cogeneration facility.

Some of these types of financings are not included in Union Carbide's total because they were not arranged through an investment bank. For example, the company did not use a banker on the $350 million sale-leaseback of its headquarters. This transaction was the company's largest lease-related deal of the year.

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Service

R.H. Macy & Co.

Total financing.....$2,700,000,000
Private placements.....$2,700,000,000
No. of issues.....7
Key underwriter.....Goldman, Sachs

NEW YORK — The financing for the $3.7 billion leveraged buy-out of R.H. Macy, one of the largest buy-outs in retail history, was raised by Goldman, Sachs & Co. through private placements and public offerings.

Macy completed its financing and went private in July after nine months of negotiations.

Goldman raised the financing via a $282.5 million private placement to purchase the preferred stock and a $17.5 million private placement to acquire the common stock.

The investment bank also arranged $300 million of 16.5%, 20-year deferred interest, junior subordinated discount debentures due 2006 with a face value of $910 million; a $400 million private placement of 14.5%, 12-year senior subordinated debentures; and $650 million of 14.5%, 15-year subordinated debentures due 2001. Goldman also did a $250 million private placement of 13.5%, 10-year senior notes and lined up an $800 million secured loan backed by real estate.

In addition, the investment bank arranged a $510 million six-year bank loan and a $225 million, one-year loan secured by shopping centers.

General Electric Credit Corp. sold $400 million in 14.5% senior subordinated Macy debentures due 1998 in a public offering soon after it had provided that debt for the buy-out. GECC effectively reduced the cost of its preferred stock holding through the public sale of the 14.5% bonds.

Wickes Cos.

Total financing.....$1,380,000,000
Public offerings:
Debt.....$1,380,000,000
No. of issues.....1
Key underwriter.....Drexel Burnham

SANTA MONICA, Calif. — Wickes Cos., which has been on an acquisition binge, raised $1.38 billion in 1986 to finance its acquisition of Collins & Aikman Corp. and several retail home-improvement and building materials chains from W.R. Grace & Co.

The retailer and maker of consumer products issued $1.38 billion in 15-year, 11⅞% senior subordinated debentures in the U.S. public market to finance the $1.16 billion acquisition of Collins & Aikman, a New York-based producer of textile products and wallcoverings.

About $200 million was used to purchase several chains, including Handy Dan Colorado, Ole's Home Improvement Center, Orchard Supply Hardware and Cashways and Allwoods.

Turner Broadcasting System Inc.

Total financing.....$1,203,258,000
Public offerings:
Debt.....$1,203,258,000
No. of issues.....6
Key underwriters.....Drexel Burnham

ATLANTA — Turner Broadcasting System Inc., which raised $1.2 billion to finance its $1.5 billion acquisition of MGM/UA Entertainment Co., later was forced to sell off the bulk of MGM's assets to pay off the debt.

The securities Turner sold initially to finance the acquisition included $440 million principal amount of Turner Broadcasting serial zero-coupon senior notes due 1989 to 1992; $600 million principal amount of extendible senior notes with initial coupon 12.5% putable; and $360 million principal amount of 14% senior subordinated notes due 1993.

The Series A-D zero-coupon notes were issued based on yields to maturity of 13.25%, 13.45%, 13.65% and 13.855% respectively, based on semiannual compounding of interest. Net proceeds were $247.2 million. The extendible notes were issued at 100% of principal amount.

The extendible notes initially bear quarterly interest at an annual rate of 12½%. The rate was slated to rise half a percentage point quarterly for each quarter the notes are outstanding.

The senior subordinated debentures were issued at 98.905% of principal amount to yield 14¼%.

In addition to the $1.2 billion it paid for MGM, Turner assumed about $800 million in debt.

Shortly after Turner completed the merger last year, it became evident the company would have difficulty meeting some of the early debt obligations. To raise money, Turner sold key MGM assets. Lorimar-Telepictures Corp. acquired MGM's film and laboratory and real estate units from Turner for $190 million. The film and television distribution company and MGM logo were sold to United Artists Corp. for $300 million.

Turner has since paid down approximately $450 million in debt from the sale of assets and is negotiating with several cable television companies to invest equity so that the preferred stock issued in connection with the MGM acquisition can be repaid.

Fox Television Co.

Total financing.....$1,148,000,000
Public offerings:
Preferred.....$1,148,000,000
No. of issues.....1
Key underwriters.....Drexel Burnham, Allen

NEW YORK — In what many view as the most complex and unusual issue of 1986, Rupert Murdoch acquired Metromedia Broadcasting Corp. properties, mainly through a Fox Television Stations Inc. preferred stock issue.

The structure of the deal was so hard to understand it took a 400-page plus prospectus to explain the plan to investors, securities analysts and regulators.

Fox needed $2 billion to purchase Metromedia's seven television stations and two other properties.

As part of the financing, Fox issued $1.15 billion in preferred stock and treated it as debt for tax purposes but equity for accounting and corporate purposes. The prospectus called the security increasing rate exchangeable guaranteed preferred stock.

Drexel Burnham Lambert Inc. and Allen & Co. structured the transaction so the preferred pays an increasing dividend — 13% the first year, 14% the second and 15% subsequent years until its maturity in 1996.

Fox retained the option to redeem the preferred at any time, or exchange it for debentures of similar terms in News America Holdings Inc., a unit of News Corp. The preferred is subordinate to News Corp.'s and its units' existing debt.

If after three years the entire offering has not been redeemed, holders begin acquiring rights that would convert each preferred stock or debenture into at least $1,000 of News Corp. common or cash based on the stock's value.

Fox used the preferred to help finance its assumption of Metromedia junk bonds, whose market value is estimated at $1.465 billion. The rest of the financing came from bank borrowings and from the sale to Hearst Corp. of one of the television stations.

Coca-Cola Enterprises

Total financing.....$1,118,838,000
Public offerings:
Common stock.....$1,118,838,000
No. of issues.....1
Key underwriter.....Allen & Co. Inc.

ATLANTA — Coca-Cola Enterprises Inc. went to flat from fizzy in an initial public offering that brought $400 million less than the company expected.

Although the preliminary prospectus estimated the offering price between $21 and $24 a share, the deal finally came through at $16.50 a share. Sale of the common stock in November brought net proceeds of $1.1 billion instead of the $1.5 billion originally expected by the company.

Coca-Cola Enterprises, formed by The Coca-Cola Co. and managed by former Coke executives, is a group of Coke bottlers that previously were independently owned.

The Coca-Cola Co. decided to consolidate the bottling operations it acquired after JTL Bottlers and Beatrice Bottlers were offered for sale last year. Coca-Cola Enterprises emerged as the largest bottler of Coca-Cola soft-drink products in the world.

Proceeds were used to reduce bank debt from the purchase of JTL Bottlers and Beatrice Bottlers. The acquisition of two other bottlers were financed by the proceeds, which also were used to provide working capital for Coca-Cola Enterprises.

Allen & Co. Inc. served as lead manager for the public offering while First Boston Corp., Salomon Brothers Inc. and Shearson Lehman Brothers Inc. acted as co-managers.

Utilities

GTE Corp.

Total financing.....$1,999,752,000
Public offerings:
Debt.....$1,999,752,000
No. of issues.....19
Key underwriters.....varied

STAMFORD, Conn. — Improved cash flow and the $420 million proceeds from Siemens AG's interest in a joint venture combined to reduce GTE's reliance on external financing in 1986.

In December, GTE used a major part of the proceeds from Siemens AG to extinguish $286 million of long-term debt carrying coupons of 11.95%, 12.25% and 12.5%.

External sources provided 8.7% of the company's financing needs last year compared with 15.5% in 1985.

But the company, taking advantage of a general decline in interest rates and upgrades from the rating agencies, financed a record $2.3 billion ($2 billion net proceeds) in the capital markets.

GTE made 19 offerings, selling debt that ranged in maturity from three to 40 years. GTE Finance made the only foreign currency deal among the company's subsidiaries, a dual-currency 6.5% 20-year Swiss franc offering that netted $30 million.

The finance unit also made two Eurodollar offerings, a three-year deal carrying an 8% coupon and a five-year deal carrying a 7.25% coupon, that together brought proceeds of $303 million.

General Telephone-California, General Telephone-Pennsylvania and General Telephone of Wisconsin all brought 40-year issues that carried coupons of 9.38%, 8.88% and 8.5%, respectively.

GTE, late in the year, authorized purchase of up to 10 million common shares in an anti-takeover move following reports that a buyer was accumulating company stock. The company also announced plans to increase the number of authorized common shares to 750 million from 280 million, reduce the par value to 10 cents a share from $3.33⅓ and split its common stock on the basis of three shares for two.

Five underwriters were selected to lead manage two or more issues in 1986: Morgan, Stanley & Co.; Shearson Lehman Brothers Inc.; PaineWebber; Dean Witter Reynolds Inc.; and First Boston Corp.

Underwriters that served as lead managers on one deal for GTE last year were: E.F. Hutton & Co.; Salomon Brothers Inc.; Goldman, Sachs & Co.; S.G. Warburg & Co.; Dillon, Read & Co.; Soditic; and Daiwa Securities.

Pacific Gas & Electric

Total financing.....$1,657,188,000
Public offerings:
Debt.....$1,657,188,000
No. of issues.....9
Key underwriters.....Morgan Stanley, Goldman Sachs, First Boston

SAN FRANCISCO — Pacific Gas & Electric Co. issued $1.7 billion in first and refunding mortgage bonds with coupons that ranged from 8.125% to 10.5% in 1986. Proceeds from the nine issues were used to redeem existing debt obligations or preferred stock, finance additions to utility plants and fund general corporate activities.

The debt with the lowest coupon, issued in December and due in 1997, raised $149 million in a deal priced at 99.6% to yield 8.183% to maturity. The highest coupon bond, due 2019, brought proceeds of $196 million in a deal priced at 98.2% to yield 10.699%.

Of the total issued, $1.1 billion replaced outstanding bonds with interest rates ranging from 10.7% to 15.375% and another $243.2 million replaced 9.1 million shares of redeemable preferred stock ranging from 4.36% to 17.38%.

Reacquisition of $1.8 billion of outstanding bonds produced a $325 million loss, which will be amortized over the life of the bonds replaced. The buyback of the preferred stock created an $11.2 million net gain that was credited to shareholders equity.

In addition to issuing taxable debt, PG&E offered $360 million in variable-rate, tax-exempt bonds to finance pollution control, solid waste disposal and waste disposal facilities used by the company. The interest rate on the 30-year bonds fluctuates daily, but the initial rate was set at 4%.

Morgan Stanley & Co., Goldman, Sachs & Co. and First Boston Corp. served as the lead managers in the first and refunding mortgage bond transactions. Goldman served as lead manager for two of the three series of tax-exempt bonds while Kidder, Peabody & Co. held that position for the third.

NYNEX Corp.

Total financing.....$1,223,750,000
Public offerings:
Debt.....$1,223,750,000
No. of issues.....3
Key underwriters.....Salomon Brothers, Morgan Stanley, Merrill Lynch

NEW YORK — NYNEX Corp., through its New York Telephone and New England Telephone units, launched three debt offerings in 1986 that were used to redeem existing higher-rate liabilities.

New England Telephone in February issued 40-year 9% debentures that raised $347 million for the company. Proceeds from the offering were used to repurchase $300 million of 37-year 12.2% debentures due 2017 and $18.4 million of its 37-year debentures 15¼% debentures due 2018.

New York Telephone raised $440 million in April by selling 8¾% debentures due 2023. Proceeds from the offering were applied to repurchase $221 million of 40-year 11% debentures due 2023 and $156.1 million of 40-year 12¼% debentures due 2024.

In addition, New York Telephone raised $436 million in a 38-year 8⅝% debenture issue due 2024. Proceeds were applied to the redemption of $300 million of 39-year 11⅝% debentures due 2019, $49.6 million of 10-year 14⅛% notes due 1991 and $30 million of 40-year 15⅝ debentures due 2021.

Southern California Edison Co.

Total financing.....$1,211,725,000
Public offerings:
Debt.....$1,211,725,000
No. of issues.....6
Key underwriters.....First Boston, Salomon Brothers, Morgan Stanley

ROSEMEAD, Calif. — Southern California Edison sold commercial paper, tax-exempt pollution control obligations and taxable debt in a refinancing program that resulted in the retirement or redemption of $1.795 billion of existing debt in 1986.

Since 1984, the company has issued more than $2.7 billion in debt, mostly to refinance higher cost liabilities. Southern California Edison saved more than $70 million in yearly interest costs as a result of the refinancing.

The company raised $1.2 billion of long-term debt in the taxable market in 1986. Southern California also sold $313 million of commercial paper and two tax-exempt deals with a total principal amount of $204 million.

Taking advantage of a rally in the bond market, the company in August got its lowest coupon of the year, 7¾%, in a 10-year first and refunding mortgage bond issue that raised $198 million. The bonds sold at a price of 98.4% of the principal amount, resulting in a 7.985% annual cost — the lowest to the company in 1986.

In February, Southern California Edison announced its lowest cost long-term financing since 1977 when it sold 30-year bonds bringing proceeds of $299 million at a 9¼% coupon. The first and refunding mortgage bonds were sold at 99.099% of principal amount, resulting in a 9.34% annual cost for the company.

Because of strong market demand and attractive interest rates, Southern California Edison brought this issue to market a week earlier than expected while increasing the size of the offering by $100 million.

Proceeds from the issue were to fund a construction program as well as to refund high-coupon debt.

In other borrowings in March and April, the company tapped the capital markets for 32- and 33-year issues at an 8⅝% coupon. Those two issues raised $397 million. A 10-year issue in June carrying an 8% coupon brought the company $198 million.

The company's cost of borrowing edged up in November when it

issued its most discounted offering of the year: a 31-year $119 million first and refunding mortgage bond that carried an 8¾% coupon. Priced at 95% of principal amount, the bonds produced an annual cost to the company of 8.85%.

Long Island Lighting Co.

Total financing $1,204,304,000
Public offerings:
Debt $1,204,304,000
No. of issues 5
Key underwriters ... Shearson Lehman, Dillon Read, First Boston, E.F. Hutton, PaineWebber

HICKSVILLE, N.Y. — The Long Island Lighting Co., drained by the stalled $4.9 billion Shoreham Nuclear Power Station, made five offerings in 1986 that allowed the company to restructure existing debt.

In April, the company raised $250 million in an offering of 11¼% general and refunding bonds priced at par and due 1996. At the same time, it raised $275 million in an offering of 11⅞% general and refunding bonds priced at par and due 2015.

Proceeds from the offerings were used to make permanent prepayments totaling $400 million on $1 billion of outstanding bank loans. The balance of the proceeds were slated for reimbursements to the company's treasury for expenditures related to utility plant construction and other corporate purposes.

At the time of the offerings, the company said it needed to sell the bonds and restructure the bank debt in order to meet $644 million of debt payments due in 1986.

The company later said its "financial viability had been stabilized" by increased revenue and the restructured bank debt.

LILCO went to the debt market again in November when it raised $679 million in three separate offerings. With the proceeds, the company redeemed $225 million of general and refunding bonds and repaid all accrued and outstanding amounts, estimated at $29 million, under a 19% promissory note. LILCO also used $130 million to call $100 million of general and refunding bonds due 2011.

The remainder of the proceeds, about $297 million, was used to reimburse the company's treasury for construction of utility plant and other corporate purposes.

LILCO remains troubled because the Nuclear Regulatory Commission so far has declined to grant a license allowing commercial operation of the Shoreham plant.

Shearson Lehman Brothers Inc. served as lead manager for all of LILCO's offerings in 1986. The co-managers for all the offerings consisted of Dillon, Read & Co. Inc., First Boston Corp., E.F. Hutton & Co. Inc. and PaineWebber Group Inc.

Natural resources

Occidental Petroleum

Total financing $2,477,803,000
Public offerings:
Debt $2,477,803,000
No. of issues 4
Key underwriter..... Drexel Burnham

LOS ANGELES — Occidental Petroleum Corp. hit the market hard March 21, 1986, with a $2.5 billion batch of debt offerings which company officials called the largest for an industrial company.

It was to have offered $1.5 billion, but said it added another $1 billion because of investors' favorable response to the offerings.

The largest issue raised $990 million in 11¾% senior debentures due 2011. The offering also consisted of $595 million senior notes due 1991 carrying a 10% coupon, $594 million senior notes due 1996 carrying a 10⅞% coupon and $298 million senior notes due 1993 carrying a 10½% coupon.

Proceeds from the issue were principally used to reduce floating rate indebtedness resulting from the 1986 acquisition of the MidCon Corp.

Drexel Burnham Lambert Inc. served as lead underwriter in all company offerings.

Drexel was joined by First Boston Corp. and Salomon Brothers Inc. in one deal, while co-managers in the other three deals were Donaldson, Lufkin & Jenrette Securities Corp., Kidder Peabody & Co. Inc., Shearson Lehman Brothers Inc. and Dean Witter Reynolds Inc.

Atlantic Richfield Co.

Total financing $1,298,513,000
Public offerings:
Debt $1,298,513,000
No. of issues 5
Key underwriters ....Salomon Brothers, First Boston

LOS ANGELES — Atlantic Richfield Co., in a program to repurchase company stock, tapped the dollar and Eurobond markets in five issues in 1986. The company also used the proceeds for general corporate purposes and the retirement of maturing debt.

The company repurchased 79.2 million of its common shares for $4.5 billion in a program that began in 1984 and ended at the beginning of last year.

Arco, a victim of depressed oil prices, has sought to restructure its operations by selling unprofitable businesses and focusing on the hydrocarbon business.

Arco's entry into the capital markets last year began in February with a domestic public offering that raised $250 million. The 9¼% notes, priced at 99.9% to yield 9.27% to maturity, mature in 1993.

Later that month, Arco launched a seven-year 9⅛% $200 million Eurobond offering. The non-callable notes were priced at 99.75%.

The company returned to the U.S. market a few days later with 30-year debentures that carried a 9⅞% coupon in a $450 million deal. The non-callable debentures were priced at 99.875% to yield 9.89% to maturity.

Another debenture deal in March raised $297 million and carried a 9.125% coupon. The 25-year non-callable debentures were priced at 99% to yield 9.23% to maturity.

The company raised $103 million later in March when it offered 10-year yen notes with a 6⅛% coupon that were priced at 100⅞% to yield 6%.

Also in March, Arco announced a public offering on a continuing basis of $200 million third-series medium-term notes due from more than nine months to 10 years from date of issue. Salomon Brothers Inc., First Boston Corp. and Shearson Lehman Brothers Inc. were the agents for these notes.

Salomon Brothers and First Boston are Arco's investment bankers in domestic market deals. S.G. Warburg & Co. and LTCB International Ltd. managed the international offerings.

Standard Oil Co.

Total financing $1,138,751,000
Public offerings:
Debt $1,138,751,000
No. of issues 9
Key underwriters.....varied

CLEVELAND — Standard Oil Co. in 1986 issued U.S.-dollar

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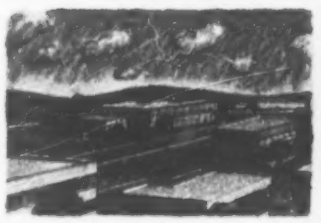

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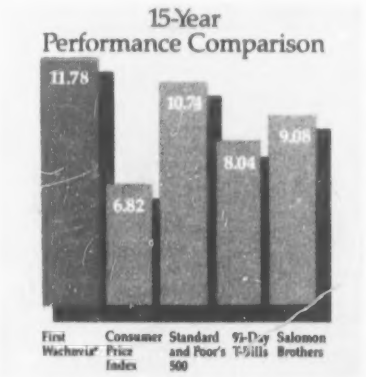


*Net of management fees

FIRST WACHOVIA

debt hedged against the price of oil and Swiss-franc debt hedged against the price of gold while becoming the first U.S. industrial company to sell dollar debt in the Japanese capital markets.

Debt issued last year, along with $400 million of asset sales, enabled the company to implement a debt retirement program that eliminated $1.3 billion of higher-cost liabilities.

The company's debt retirement program was expected by the company to produce an after-tax interest savings of as much as $15 million in 1987 and continued savings after that.

The company started 1986 with a 200 million Swiss franc offering in April that resulted in proceeds of $100 million at a coupon of 7½%.

If the issue isn't redeemed after 10 years, the coupon on this perpetual issue will be reset at 50 basis points below Treasuries.

Standard Oil estimates a savings of 50 basis points in the first 10 years of the issue.

Investors receive interest payments in U.S. dollars and the principal in Swiss francs.

If the Swiss franc appreciates against the U.S. dollar, a foreign exchange rate cap of 2.01 Swiss francs to $1 protects Standard Oil from currency risk at redemption. But if the Swiss franc depreciates, Standard Oil will gain because it will need fewer U.S. dollars to pay the principal.

After selling the Swiss franc debt, Standard Oil in May raised $100 million in a 10-year Eurodollar note offering. The 8% notes were priced at 100.125%.

The company switched away from traditional debt in June when it raised $299 million in debentures and oil-indexed notes.

Standard Oil sold $300 million of 6.3% deep-discount debentures due 2001 and one $37.5 million tranche of oil-indexed notes due 1990 and another of equal size due 1992. The debentures were priced at 74.7% while the notes were priced at 100%.

The company also hedged against raw material prices later in the year when in October it issued $92 million of Swiss franc notes with warrants to purchase 3.3 ounces of gold for $565.20 an ounce.

Standard Oil raised a total of $300 million in two separate offerings in August and September.

In another foreign-market deal, Standard Oil sold a $50 million 7⅛% issue due 1997 in Japan while at the same time selling the Japanese a 7⅛% 8 billion yen issue due 1994. Both issues, brought at the end of year, were priced at 101.375%.

The company's last domestic issue of the year resulted in proceeds of $148 million. The five-year issue, priced at 99.548%, carried a 7% coupon.

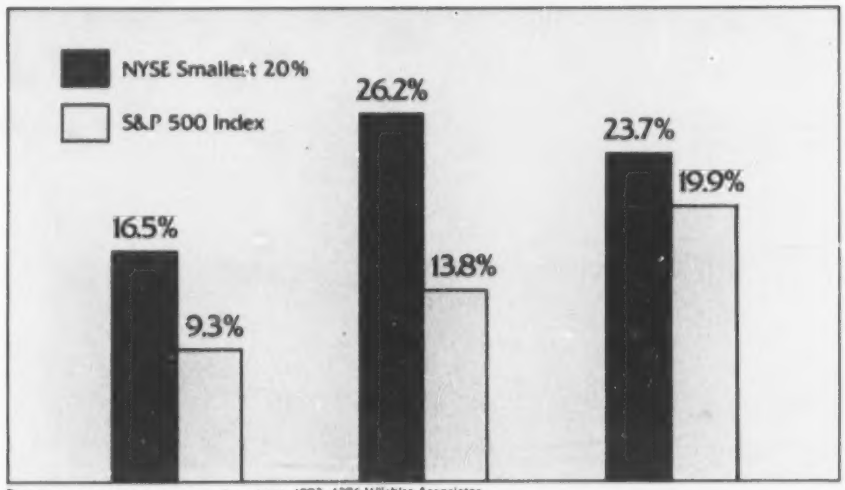
First Boston Corp., Merrill Lynch Capital Markets, Salomon Brothers Inc. and Shearson Lehman Brothers Inc. served as lead managers in Standard's domestic offerings.

In the international market, Standard tapped the services of Soditic, Nikko Securities (Europe), Morgan Guaranty (Switzerland) and Nomura Securities.

A medium-term note program started in December with a $350 million shelf registration resulted in less than $10 million dollars in medium-term notes issued in that year.

Shearson, Merrill Lynch and Salomon are the dealers in the medium-term note program.

Check this Record!



Data Source: 1926-1981: Ibbotson Associates; 1982-1986 Wilshire Associates

Annualized Returns for Periods Ending 12/31/86

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Chevron Corp.

Total financing	$1,062,250,000
Public offerings:	
Debt	$896,250,000
No. of issues	3
Private placements	$166,000,000
No. of issues	1
Key underwriters	Salomon Brothers, Merrill Lynch, Deutsche Bank

SAN FRANCISCO — Chevron Corp. refinanced short-term floating-rate debt with about $900 million in fixed-rate obligations sold to the public in 1986.

The company also continued a debt reduction program funded by asset sales. A sale-leaseback of certain assets that generated $166 million was privately placed in a deal managed by Morgan Guaranty Trust Co.

Debt associated with the Gulf Oil Corp. merger was reduced by about $1 billion, mostly through asset sales.

In the U.S. public markets, Chevron sold 10-year 8¾% notes, priced at 99.625%, that drew proceeds of $299 million.

The other U.S. deal raised $296 million in 30-year sinking fund debentures that were priced at 98.625% and carry a coupon of 9.375%.

Chevron ventured into the Eurodollar market in a 10-year $302 million notes issue priced at 100.5% and carrying an 8¼% coupon.

Selling assets to reduce short-term debt and refinancing with medium- and long-term debt enabled the company to benefit from lower commercial paper and long-term rates.

Salomon Brothers Inc. and Merrill Lynch Capital Markets co-managed Chevron's two U.S. public offerings; Deutsche Bank managed the Eurodollar offering; and Morgan Guaranty arranged the sale-leaseback.

Coastal Corp.

Total financing	$1,009,197,000
Public offerings:	
Debt	$980,120,000
No. of issues	3
Private placements	$29,077,000
No. of issues	1
Key underwriters	Drexel Burnham, Royal Bank of Canada (Suisse) and Banc Paribas (Suisse)

HOUSTON — Coastal Corp. extended the maturities of its liabilities and reduced exposure to variable interest rates in a refinancing program that affected more than $1 billion of debt.

Some $600 million in outstanding subordinated exchangeable variable-rate notes due 1994 were exchanged for 8.48% subordinated notes due 1991. The company is expected to realize an interest rate savings of 1.5% on the debt as a result of the exchange combined with related interest rate swap agreements.

In February, Coastal completed a private placement of a five-year Swiss franc notes offering that carried a 6% coupon. The deal, which raised $30 million, allowed the company to retire higher-rate debt. A public Swiss franc offering of bonds a month later gave Coastal proceeds of $80 million.

The company launched a major financing in June when it raised $876 million in two debt offerings: $500 million of 11¼% senior notes due 1996 and $400 million of 11¾% senior debentures due June 2006. Both securities, offered at 100% plus accrued interest from June 15, were used to retire bank debt having variable interest rates and shorter maturities.

Coastal completed the purchase of 1 million shares of preferred stock in September as part of a program to replace higher-rate debt and preferred. Three million shares of preferred were issued in 1985 in connection with the merger with American Natural Resources Company; 984 million preferred shares are outstanding.

Drexel Burnham Lambert Inc. underwrote Coastal's domestic offering; Royal Bank of Canada (Suisse) and Banc Paribas (Suisse) handled the Swiss franc deals.

Retail

Safeway Stores Inc.

Total financing	$1,203,922,200
Public offerings:	
Preferred	$45,000,000
No. of issues	1
Debt	$1,050,833,000
No. of issues	3
Private placements	$106,000,000
No. of issues	2
Other	$2,089,200
No. of issues	1
Key underwriter	Drexel Burnham

OAKLAND, Calif. — Safeway Stores Inc., the largest retail company issuer, raised more than $1.2 billion in seven transactions in 1986 primarily because it was taken private in a leveraged buy-out late last year.

Kohlberg Kravis Roberts & Co. and Safeway management agreed to the $4.3 billion buy-out in midsummer, thwarting a hostile takeover attempt by Dart Group Corp., Landover, Md.

At the time, KKR acquired 73% of Safeway's 61.4 million shares outstanding for $69 a share, using cash generated from $2.7 billion in bank borrowings, $320 million in loans from KKR's limited equity partnerships and $130 million from the sale of Safeway equity interests to the KKR partnerships.

The remaining shares later were exchanged for 20-year junior subordinated debentures and warrants to buy, in the aggregate, 5% of Safeway common for $17.5 million if the company goes public again.

The junior subordinated debentures carry a 15% annual coupon through November 1988 and a 14½% rate thereafter. Interest payments during the first five years can be made in cash or additional junior subordinated notes.

Safeway raised more than $1 billion of its $1.2 billion in public and private financings in mid-November in order to repay the $320 million KKR loan and about $685 million of the bank financing.

The public offerings, solely managed by Drexel Burnham Lambert Inc., consisted of $750 million of 11¼% senior subordinated notes due 1996 and $250 million of 12% subordinated debentures due 1998. Another $45 million in net proceeds was raised through the offering of 450,000 shares of adjustable-rate cumulative exchangeable preferred stock with an initial quarterly dividend rate of 15¼% payable in cash or additional preferred.

In addition, $2.1 million was raised through the sale of limited

partnership interests in SSI Equity Associates L.P.

The partnership, formed by KKR, was set up to buy warrants giving the partnership the right through 2001 to purchase 13.9 million shares of Safeway stock for $2 a share. The warrants can be exercised for any combination of cash or the surrender of debt and preferred securities issued in connection with the buy-out.

The public offering went off without a hitch and was oversubscribed despite its untimely launch. Safeway came to market as the high-yield market was reeling from the Ivan Boesky insider-trading revelations and fears Drexel would be implicated in the scandal.

Safeway immediately announced plans to sell off assets, including its 130-store U.K. operation and its 20% stake in Australia-based Woolworths Ltd. to help cut the huge debt load incurred in the buy-out. The buy-out added $4.1 billion of debt to the $1.5 billion already on Safeway's books, while stockholders' equity fell to $130 million from $1.7 billion.

Prior to the buy-out, Safeway raised $50.8 million overseas in an April offering of bonds denominated in Swiss francs. Union Bank of Switzerland acted as lead manager on the deal.

Data supplied by IDD Information Services Inc., New York, also lists two private placements of notes totaling $106 million, arranged in late August through Citicorp. However, the private placements are believed to be part of the bank financing arranged at that time for the buy-out.

Dayton Hudson Corp.

Total financing	$998,350,000
Public offerings:	
Debt	$998,350,000
No. of issues	7
Key underwriters	Goldman, Sachs, Salomon Brothers, Swiss Bank

MINNEAPOLIS — Dayton Hudson Corp. raised almost $1 billion in the U.S. and Eurodollar markets in 1986, ultimately using part of the proceeds to refinance existing higher-cost debt.

In September, the company called in $256 million of long-term debt at a premium for an estimated interest cost savings of $3 million annually. The debt repurchase resulted in an $18 million extraordinary charge in the third quarter.

The diversified retail company, which ranked second among the top five issuers in the retail industry, raised $895 million in the U.S. market through five debt offerings and another $203 million in two Eurodollar transactions.

Tapping into the lower interest rate environment in the United States, Dayton Hudson relied on basic fixed-rate debt financings.

In its first deal in late February, the company raised $100 million in a February offering of 9¼%, 20-year debentures priced at 99¾ to yield 9.278. It followed in April with a $100 million offering of three-year notes carrying a 7⅞% coupon. The deal was priced at 99.7 to yield 7.92%.

After a summer hiatus, Dayton returned to the U.S. arena to issue in September $150 million of 8⅜% notes due 1996 at 99.6 to yield 8.435%. In that deal, the company used a hedge to lock in its rate several weeks earlier, then waited for Treasury market volatility to calm before offering the notes. The company's final U.S. transactions in October and November were both 30-year sinking fund debentures.

The October deal totaled $200 million and consisted of 9.5% bonds priced at 99 to yield 9.6%. The offering came concurrently with a $100 million issue of 8¼% seven-year Eurodollar notes, which were offered at a premium of 101.

The $250 million deal in November carried a 9¼% coupon and was priced at 99.5 to yield 9.3%.

Dayton completed another Eurodollar deal in December to net another $101.8 million before year end.

Financing proceeds were targeted to meet capital expenditure and working capital requirements related to its expansion and store remodeling efforts in addition to being used for debt refinancing.

This year the company has continued to reduce high coupon debt. In January it redeemed outstanding principal of a number of existing issues including a $57 million portion of 14¾% sinking fund debentures due 2012 and a $34 million portion of 11¼% debentures due 2015.

Managing underwriters of its 1986 domestic deals were Goldman, Sachs & Co. and Salomon Brothers Inc. Swiss Bank Corp. International led underwriters on the Eurodollar deals.

Anac Merger Corp. and Anac Holding Corp.

Total financing	$918,770,000
Public offerings:	
Preferred	$130,020,000
No. of issues	1
Debt	$703,750,000
No. of issues	3
Private placements	$85,000,000
No. of issues	1
Key underwriter	Salomon Brothers

TWINSBURG, Ohio — Anac Merger Corp. and Anac Holding Corp. raised almost $919 million through the issuance of high-yield debt and preferred stock in December to help take Revco D.S. Inc. private in a $1.25 billion management-led buy-out.

The financings made the newly private drug store operator the third largest issuer in the retail industry — an industry where the most active capital raisers were leveraged buy-out driven.

Just more than $700 million of the total constituted public offerings of junk bonds. Of that, $400 million was raised with the sale of 13⅛% senior subordinated notes due 1994 and $210 million from the offering of 13.3% subordinated notes due 1996. Both issues were priced at par.

In addition, Anac raised almost $94 million through a units offering, each consisting of a 13.3%, 15-year junior subordinated note plus four common shares and four common stock puts. The units were priced at $1,000.

The common shares reflect a financing strategy being used more frequently in leveraged buy-out transactions. The slivers of common equity continue to trade publicly for the otherwise private companies, providing a means of valuing the owners' investment in the company and receiving a market reading on management's streamlining efforts of the company.

Aside from the debt offerings, Anac issued 7.88 million shares of 15¼% cumulative exchangeable preferred stock for $130 million. Another $85 million of convertible preferred was placed privately with J.P. Morgan Investment Management and New York Life Insurance Co.

The remaining financing for the buy-out represented senior bank debt.

Stockholders approved the buy-out in December, ending a lengthy process that began in March 1986 when Revco management offered $1.16 billion, or $33 a share, to take Revco private. A committee of outside directors recommended increasing the offer, with Revco's board accepting a $38.50-a-share sweetened bid in August.

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The company is owned directly or indirectly by about 35 members of Revco management, Transcontinental Service Group in London, J.P. Morgan, New York Life and Salomon Brothers Inc., which was sole manager of the stock and preferred offerings.

Eckerd Holdings Inc.

Total financing	$673,047,000
Public offerings:	
Debt	$436,047,000
No. of issues	2
Private placements	$237,000,000
No. of issues	2
Key underwriter	Merrill Lynch

LARGO, Fla. — Eckerd Holdings Inc., the fourth largest retail issuer of 1986, raised $673 million in debt and equity last year, generating part of the assets needed to complete the leveraged buy-out of Jack Eckerd Corp. by investors led by management and Merrill Lynch Capital Partners.

The majority of the financing — $436 million — stemmed from the public offering of high-yield securities: a zero-coupon hybrid issue originally aimed at Eckerd shareholders and a 15-year subordinated debenture offering that had been slated as a private placement among investors led by Prudential Insurance Co.

Eckerd issued $345.2 million of 20-year discount subordinated debentures at 53.9% for net proceeds to the company of $186.8 million. The securities carry a zero coupon for five years and provide a 12¾% effective yield during that time and a 13% fixed rate thereafter. It netted $250 million from the $290 million offering of the 11⅛% 15-year subordinated debentures priced at 89.25% to yield 12¼%.

Another $237 million was generated through private placements of equity and debt, including a $75 million placement of preferred stock.

Senior bank loans provided the remaining funds needed for the $1.35 billion buy-out.

Shareholders initially were supposed to be paid $28 in cash and $5 in the discount subordinated debentures for each of their 35.8 million shares outstanding. Eckerd decided to sell the bonds in a public offering and use the proceeds to help pay all cash for stockholders' shares because of concerns the high-yield securities might be deemed equity rather than debt for accounting and tax purposes.

The five-year zero feature and the possibility future interest payment could be curtailed if Eckerd fell short of financial performance objectives required by the bank lenders created the possibility the securities would have to be treated as equity.

The last-minute change regarding the discount subordinated bonds led to the public offering, rather than private placement, of the 15-year debentures. The change made the five-year zeros senior to the 15-year securities, making those securities less palatable to the private investors.

Eckerd is launching cost-cutting measures and asset sales to meet bank debt requirements and reduce leverage stemming from the buy-out. Its total outstanding debt climbed to $1.2 billion as a result of going private, up from $94 million previously.

J.C. Penney Co.

Total financing	$491,250,000
Public offerings:	
Debt	$491,250,000
No. of issues	3
Key underwriter	First Boston

NEW YORK — J.C. Penney & Co. took advantage of the low interest rate environment to raise almost $500 million in the U.S. debt market in 1986, making it the fourth largest retail company issuer in the capital markets last year.

It also was one of two top retail issuers whose financing for the year was not acquisition related.

Penney dipped into the market for the first time last year in the last week in February — a week when the sharp drop in bond yields led U.S. issuers to raise $5.1 billion through predominantly traditional, fixed-rate debt offerings.

Its deal was for $150 million and consisted of 30-year sinking fund debentures priced at par and carrying a 9⅛% interest rate.

The company returned to the markets in July with a second 30-year sinking fund issue for $200 million. The offering of 9% bonds, which was priced at 96, netted the company $192 million.

Penney shortened up on the maturity for its final deal of the year, a $150 million offering of 8¾% notes due in 1996. The deal, priced at 99.5, generated $149.3 million in net proceeds.

The company indicated that all transactions for the year would be earmarked for general corporate purposes, including working capital and the repayment of outstanding borrowings.

First Boston Corp. was sole manager for all three transactions.

Transportation

Texas Air Corp.

Total financing	$1,030,330,000
Public offerings:	
Common stock	$332,590,000
No. of issues	2
Preferred	$146,040,000
No. of issues	1
Debt	$200,000,000
No. of issues	2
Private placements	$351,700,000
No. of issues	18
Key underwriters	Drexel Burnham, PaineWebber

HOUSTON — The highly acquisitive Texas Air Corp. raised more than $1 billion in public- and private-market transactions in 1986, topping other companies as the most active issuer in the transportation industry.

The industry as a whole witnessed tremendous consolidation through acquisitions during the year, with all of the five largest issuers being involved in one acquisition or another. But Texas Air was clearly the most acquisitive as it sought to conclude an expansion drive that would give it control of the nation's largest airline network.

The company acquired Eastern Air Lines for $660 million, paying $6.25 a share in cash and $3.75 in cumulative junior preferred for the airline's outstanding shares. For $300 million in stock, notes and a little cash, it purchased the beleaguered Peoples Express Inc. and assets of People's subsidiary, Frontier Airlines.

In addition, Texas Air entered into an agreement last year to buy the remaining publicly held shares of Continental Airlines Inc., already under the Texas Air fold, for $186 million.

The airline's almost $680 million in public markets financings helped Texas Air build up cash to pay, in part, for its acquisition activity. The financings also were designed to bolster the highly leveraged company's financial underpinnings to facilitate the acquisitions as well as its commitments for the purchase of additional aircraft.

As a result, Texas Air raised almost $480 million in three stock deals that sought to expand the company's equity base.

It raised $142.6 million in May through the public sale of 4.6 million shares of common at $32.25 a share. The deal proved a popular one among investors; original plans had called for the sale of 2.5 million shares.

In July, the airline raised another $146 million with a six million share offering of 6¾% cumulative convertible junior preferred. The stock, priced at $25 a share, is convertible into common at a conversion price of $37.50 a share.

The company returned to the common stock market in October, issuing five million shares of common at $38 each for a total of $190 million.

Texas Air also added to its equity base during the year through the redemption and conversion of outstanding convertible issues and the exchange of some senior debt obligations for common stock.

Texas Air's remaining two public offerings for the year were for debt. It issued $100 million each of 12½% senior increasing-rate extendible notes due 1991 and 14¼% senior notes due 1993 in February. Both issues were priced at par.

Giving effect to these transactions as well as to Texas Air's acquisitions for the year, the company's pro forma long-term debt and lease obligations as of June 30 would have stood at $4.5 billion or 79% of its total $5.7 billion capitalization. Without accounting for these transactions, debt and lease obligations totaled $1.3 billion or 81.3% of a $1.6 billion capitalization.

Texas Air's remaining financings for the year were lease-related private placements. The company, starting in 1986, was committed to acquire, by purchase or lease, aircraft with a value of more than $1 billion.

IDD Information Service Inc., New York, reported $350 million in lease-related transactions for Texas Air for the year. It could not be determined by press time if this represented all of the company's 1986 activity in this area.

Drexel Burnham Lambert Inc. acted as lead manager for Texas Air's public offerings during the year. Kidder, Peabody & Co., Merrill Lynch Capital Markets and Smith Barney, Harris Upham were co-managers. PaineWebber was the placement agent on private placements.

Trans World Airlines

Total financing	$879,700,000
Private placements	$879,700,000
No. of issues	4
Key underwriter	Drexel Burnham

NEW YORK — Trans World Airlines dipped into the private placement arena to raise almost $663 million in debt in 1986. It also netted another $217 million through the sale-leaseback of aircraft.

These transactions put the company second among issuers in the transportation industry.

The $663 million in private debt financing was raised in February and March of 1986 and included $312.7 million in two issues of equipment trust certificates and $350 million in senior increasing-rate extendible notes.

Almost $213 million of the former represents 10-year certificates with a 14¼% coupon. Another $100 million came from the placement of 13¾% equipment trust certificates due in 1991.

The certificates are secured by a pool of 44 aircraft and 71 related spare engines, with title to the equipment reverting to TWA at maturity of the certificates.

The $350 million increasing-rate extendible notes, also issued in February, mature quarterly, with TWA having the option to extend the maturity for another quarter up until Feb. 1, 1991. The initial rate on the securities was 12.93%; however, their terms call for the rate to increase by 50 basis points for the first four quarters after issuance and by 25 basis points for every quarter thereafter.

All the securities were placed at par and carried public registration rights. As a result the securities have been trading publicly since last spring.

Drexel Burnham Lambert Inc. was the placement agent on the deals. At the end of the year, TWA purchased $100 million of the extendible notes in the open market.

Proceeds from the transactions were targeted for general corporate purposes, including acquisitions.

And shortly after the placement of much of the securities, TWA agreed to buy Ozark Air Lines, St. Louis, for $237 million in cash — a deal that was completed in September. In addition, TWA cash coffers were cited as one source of funds for TWA Chairman Carl Icahn's ill-fated attempt to take over USX Corp.

Following the Ozark acquisition, TWA entered into a sale-leaseback arrangement involving 35 used aircraft that previously had been owned by Ozark. TWA sold the planes to Polaris Aircraft Leasing Corp. and two Polaris affiliates and then leased them for terms of five to six year.

Some of the funds generated from the transaction were used to pay down outstanding debt. After accounting for that, the airline netted $217 million in cash from the transaction.

Additional cash was generated through the roughly $140 million sale of 50% of TWA's computerized reservation system last year to NWA Inc., the parent of Northwest Airlines. Payment included $120 million in cash and $20 million in notes.

AMR Corp.

Total financing	$842,941,000
Public offerings:	
Debt	$398,969,000
No. of issues	3
Private placements	$443,972,000
No. of issues	11
Key underwriters	varied

FORT WORTH, Texas — AMR Corp. raised $843 million in the public and private markets in 1986 to rank second among the top five transportation issuers.

The airline generated almost $400 million for general corporate purposes in three public transactions, one of which was launched overseas.

American Airlines, of which AMR is the parent, opened the company's financing activities in March with a $200 million units offering of subordinated debt and warrants. The company issued 200,000 units, each priced at $1,000 and consisting of one 10-year subordinated debenture carrying a 6¼% coupon and one warrant to buy AMR stock at $61.77 per share through March 1996. The conversion price provided an implicit 25½% conversion premium over the $49-per-share trading price of AMR at the time of the offering.

American chose the equity-linked deal because of the strong performance of the parent's stock. But the company got much cheaper financing as well, saving an estimated 300 basis points on the interest on the debentures. A straight-debt offering at the time would have carried an interest rate of more than 9%.

AMR reaped significant savings in April as well when the parent raised $102.2 million with a 200 million Swiss franc deal issued overseas. The 15-year securities carried a 5¼% coupon payable in Swiss francs. AMR hedged its currency exposure on the deal through a swap arrangement that gave the company a fixed-rate borrowing cost of 8.14%. That represented an estimated 50 to 75 basis points savings over what AMR would have had to pay at the time on a comparable offering in the United States.

In May, AMR officials thought interest rates had hit their secular low. On that premise, the company sold 100,000 warrants to Goldman, Sachs & Co. The warrants entitle Goldman to purchase $100 million of 9.1% 30-year debentures. AMR received $5 million for the debt warrants, which are good until May 1989. If the warrants are exercised and AMR has to issue the bonds, AMR's effective borrowing cost would be about 8½%, taking into account the $5 million proceeds from the warrants sale.

AMR had planned to launch a 30-year bond offering concurrently with the warrants sale, but delayed the $100 million offering when the bond market went to the doldrums.

It issued the 9% bonds in September at 96.8% to yield 9.32%. Net proceeds to AMR were just less than $97 million.

ing activities in 1986 were contained in the private placement arena and were lease-related. American Airlines financed the purchase of 20 aircraft through a number of leveraged lease transactions in the United States, United Kingdom and Japan.

Investment bankers leading the airlines deals last year included Morgan Stanley & Co. Inc., Salomon Brothers Inc. and Merrill Lynch Capital Markets.

Delta Air Lines

Total financing	$681,595,000
Public offerings:	
Debt	$297,495,000
No. of issues	2
Private placements	$384,100,000
No. of issues	3
Key underwriters	Goldman, Sachs, Citicorp

ATLANTA — Delta Air Lines raised $682 million in the public and private markets in 1986, ranking it third among issuers in the transportation arena.

May 8, the date of its first offering, was a day when the bond market reacted negatively to the Federal Reserve System's report of an unexpected surge in the money supply, while the Treasury Department's auction of $9 billion of 30-year bonds met with strong bidding by dealers and investors.

The airline offered $300 million of notes and debentures through underwriters led by Goldman, Sachs & Co. The issues consisted of $150 million of 8¼% notes due 1996 and $150 million of 9% debentures due 2016.

The notes were priced at 99.33% to yield 8.35%, while the debentures came to market at 99% to yield 9.098%. Net proceeds to Delta totaled $297.5 million and were tagged for general corporate purposes.

Delta last year responded to the industry's consolidation trend with a merger of its own, agreeing to acquire Western Air Lines Inc. in Los Angeles for $860 million.

The company also agreed to buy as many as 80 aircraft from McDonnell Douglas Corp. at an inflation-adjusted cost expected to reach $2 billion. Deliveries will be made through 1992.

The remaining $384 million in Delta financings consisted of leasing transactions for aircraft purchases. The deals were arranged through the private markets, with Citicorp acting as private placement agent.

Eastern Air Lines Inc.

Total financing $579,000,000
Private placements $579,000,000
No. of issues 4
Key managers Drexel Burnham, Merrill Lynch

MIAMI — Eastern Air Lines Inc.'s 1986 financing activities focused on the private placement market, where the company raised $579 million in four transactions in December.

The bulk of that — $500 million — was earmarked to help pay for the $660 million acquisition of Eastern by Texas Air Corp. as well as for general corporate purposes and retirement of outstanding debt.

The private financing, managed by Drexel Burnham Lambert Inc. and Merrill Lynch Capital Markets, consisted of three tranches: $200 million of seven-year, first-priority security equipment trust certificates; $200 million of 10-year, second-priority equipment trust certificates; and $100 million of 15-year, third-priority certificates.

The private certificates were secured by used Eastern aircraft, which had liens against them from creditors. Those creditors released the aircraft from the liens upon repayment of debt.

The proceeds from the private placements were earmarked for distribution roughly as follows:

About $110 million was slated for payment of the Eastern merger with Texas Air, with $130 million going toward related expenses involving special consents, amendments and redemptions of some debt and preferred stock. About $120 million was to be directed toward retirement of existing debt, and $140 million in remaining cash was targeted for working capital.

In addition to the $500 million transaction, Eastern completed one additional private placement in December. The $79 million deal consisted of secured notes and Merrill Lynch was the agent.

Texas Air completed its acquisition of Eastern in December, despite efforts by union members to thwart the merger. The deal paid Eastern shareholders $10 a share, $6.25 in cash and $3.75 in subordinated debentures.

Rail/shipping

Burlington Northern Inc.

Total financing $872,556,000
Public offerings:
Debt $872,556,000
No. of issues 4
Key underwriters ..... Morgan Stanley, Salomon Brothers

SEATTLE — Burlington Northern Inc. used its proceeds from four debt issues to fund general corporate activities and to retire a portion of the 15% debentures issued by a company acquired by Burlington in 1983, El Paso Natural Gas Co.

Burlington Northern, a company primarily engaged in the transportation and natural resources businesses, made a 10-year 9⅜% notes offering of $300 million in February. The company followed that in April with a $200 million issue of 9% debentures due 2016.

In October, Burlington Northern Railroad Co., a subsidiary, issued $275 million of consolidated mortgage 9¼% bonds due 2006, while El Paso in the same month issued $100 million of 9⅛% debentures due 2011.

The company redeemed about $457 million of preferred stock in 1986.

Morgan Stanley & Co. and Salomon Brothers Inc. are Burlington's underwriters.

CSX Corp.

Total financing $844,800,000
Public offerings:
Debt $844,800,000
No. of issues 4
Key underwriters ... First Boston, Merrill Lynch, Morgan Stanley, Salomon Brothers

RICHMOND, Va. — CSX Corp. tapped the capital markets for long-term debt needed to finance the $804 million acquisition of Sea-Land Corp., the largest U.S.-flag container-shipping company. CSX spent an additional $79 million investing in other enterprises.

Formed in 1980 from the merger of the Chessie System Inc. and Seaboard Coastline Industries Inc., CSX now operates transportation, energy, technology and properties units.

CSX raised $245 million in June by selling 9½% sinking fund debentures due 2016 that were priced at 98% to yield 9.71% to maturity.

The next month it returned to the capital markets with an 8.4% 10-year note offering, priced at par, that raised $200 million. In August, CSX issued par-priced 20-year debentures that raised $300 million and carried a 9% coupon.

The last issue, in October, brought proceeds of $100 million through an 8¼% note offering that was priced at 99.8% to yield 8.28% to maturity.

First Boston Corp. served as the lead manager in all four deals. Merrill Lynch Capital Markets, Salomon Brothers Inc. and Morgan Stanley & Co traded places as co-managers.

A special section on leasing will be published June 15.

Union Pacific Corp.

Total financing $419,930,000
Public offerings:
Debt $419,930,000
No. of issues 4
Key underwriters .... E.F. Hutton, Merrill Lynch, Union Bank/Switzerland, First Boston

NEW YORK — Union Pacific Corp.'s biggest issue of the year was made in connection with the $1.2 billion acquisition of the Overnite Transportation Co.

Purchase of the trucking company was funded primarily by bank debt, part of which was refunded in December when Union Pacific raised $248 million in a 7⅛% notes offering. The 10-year notes were priced at 99.05%.

Commercial paper also was used to refinance the bank debt.

In another long-term financing, Union Pacific raised $100 million in a 10-year Eurodollar note issue, priced at 99¾%, that carried a coupon of 7⅜%. The company received $73 million by selling two issues of trust equipment certificates.

Almost 10.4 million of Union Pacific shares were bought back for $506 million in a program that authorizes the purchase of up to $1.2 billion worth of stock.

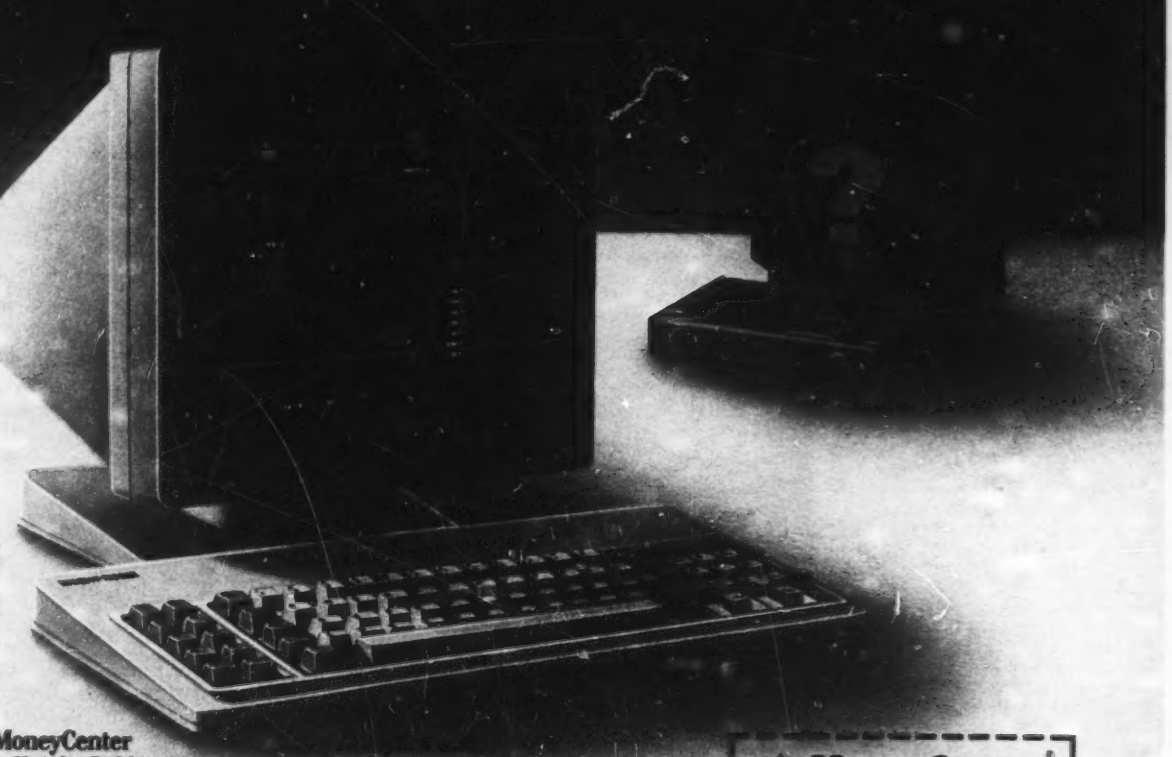
American President Cos

Total financing $200,000,000
Public offerings:
Debt $200,000,000
No. of issues 2
Key underwriters ..... Goldman, Sachs, Salomon Brothers

OAKLAND, Calif. — After using funds from cash flow and an equity offering to fund acquisitions in 1985, American President Cos. Ltd. in January 1986 raised $100 million by selling 10-year notes priced at par.

Proceeds from the debt offering

THE INTELLIGENT ALTERNATIVE TO TELERATE



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were to increase the transportation company's liquidity drained by the acquisitions.

In 1985, American President spent $60 million for National Piggyback Services Inc., National Piggyback Specialized Commodities Inc. and Intermodal Brokerage Services Inc. Transportation equipment costing $232 million also was funded from cash flow and the proceeds of a November 1984 equity offering.

In June, the company made an offering for $3.50 convertible exchangeable preferred stock that resulted in proceeds of another $100 million.

Proceeds were to be used to replace some of the company's ships and upgrade other pieces of equipment. Company officials announced in May the beginning of a $500 million capital expansion program that would be implemented over a two- or three-year period.

Exxon Shipping Co.

Total financing $149,550,000
Debt $149,550,000
No. of issues 1
Key underwriter.....Salomon Brothers

HOUSTON — Exxon Shipping Co., a wholly owned subsidiary of Exxon Corp., raised $149.6 million in the capital markets to provide permanent financing for the purchase of two oceangoing tankers.

The guaranteed debt securities, which come due Oct. 1, 2011, offer a 7½% coupon in effect until Oct. 1, 1993, when they are subject to a mandatory put at par plus accrued interest. The price to the public at issuance was 99.7%.

After the mandatory put date, the securities likely will be resold. The coupon after the put date will be determined by Exxon Shipping.

Health care

American Medical International Inc.

Total financing $640,085,000
Public offerings:
Debt $640,085,000
No. of issues 6
Key underwriters ....Salomon Brothers, Goldman, Sachs

BEVERLY HILLS, Calif. — American Medical International ended a period of dependence on the capital markets with six issues that brought the company $640 million in 1986.

The company, which owns and operates hospitals in the United States and abroad, is ending its period of expansion in which debt made up the difference between spending and cash flow. A leaner, more focused AMI is expected to emerge.

In 1986, the company spent $813 million for the construction of new facilities and the expansion of existing ones. Assets generated from operations amounted to $477 million.

Some of the company's recent trips to Wall Street have been to refinance old debt. In July, for example, it sold $300 million in subordinated notes to reduce long-term debt by repaying bank lines of credit and commercial paper that totaled $410.6 in May 1986. A $100 million note due in 1989 carried a 9% coupon and was priced at par; a $200 million note carried a 9½% coupon and also was priced at par.

The company, in February, sold $65 million of sterling debt to repay short-term obligations in British currency.

AMI also made two notes offerings in January that netted almost $200 million. One $100 million issue due in 1991 carried a 9.625% coupon and was priced at 99.875%. The other issue, also $100 million, carried a 9¾% coupon and was priced at 99.35%.

In February, the company made a Eurodollar offering that brought $75 million in proceeds.

Goldman, Sachs & Co., Salomon Brothers Inc. and Dean Witter Reynolds Inc. acted as the company's underwriters in the domestic offerings.

The Long Term Credit Bank of Japan managed the Eurodollar offering and Barclays Bank, the sterling deal.

Hospital Corp. of America

Total financing $496,875,000
Public offerings:
Debt $496,875,000
No. of issues 3
Key underwriters ....Salomon Brothers, Morgan Stanley

NASHVILLE, Tenn. — Hospital Corp. of America used the $497 million it received from the debt market in 1986 to replace floating-rate with fixed-rate debt.

The company, which operates acute-care and psychiatric hospitals, started the year with a 9% debentures issue due 2016 that raised $149 million. The March offering was priced at 99¼%.

In April, the company issued 8% 10-year notes priced at par that raised $150 million.

The company's last issue of the year, offered in August, brought $198 million through the sale of seven-year 7⅛% notes priced at 99%.

The company began a stock repurchase program in November 1985 that authorized the repurchase of $350 million common shares. At the end of 1986, it had repurchased 9,092,122 shares of common stock at a price of $332.3 million.

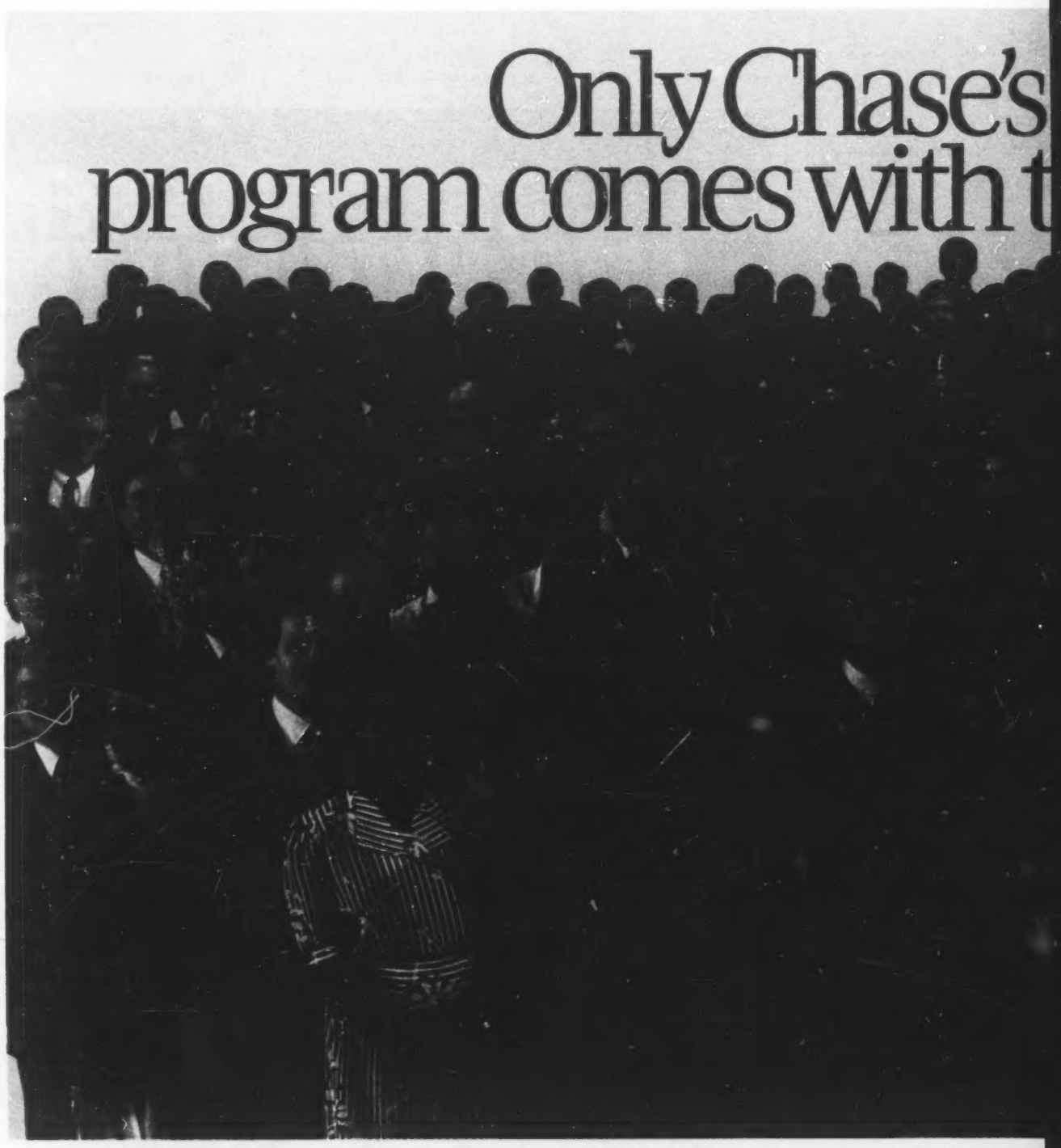
In October, Hospital Corp. and The Equitable Life Assurance Society of the United States formed Equicor-Equitable HCA Corp., a corporation in which each company has a 50% interest.

Equicor provides managed health care and other employee benefit products.

Hospital Corp. contributed cash and other net assets totaling $214 million to the joint project.

In 1986, the company made acquisitions and dispositions that resulted in a $1.6 million net gain.

Salomon Brothers Inc. served as the lead manager in two of the 1986 offerings; Morgan Stanley & Co. Inc. was lead manager in the third. Co-managers in the various offerings were Prudential-Bache Securities Inc.; Goldman, Sachs & Co.; Salomon, and Morgan.



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National Medical Enterprises Inc.

Total financing $200,000,000
Public offerings:
Debt $200,000,000
No. of issues 1
Key underwriter ..... Merrill Lynch

LOS ANGELES — National Medical Enterprises Inc. in January sold Liquid Yield Option Notes to raise $200 million.

The LYONs, a product of Merrill Lynch Capital Markets, were sold to the public at 25% of the $800 million principal amount at maturity. The price to the public produces a yield to maturity of 7.5%, computed on a semiannual basis.

The LYONs are convertible into common stock at the holders' option at any time, unless the notes previously are redeemed or repurchased, at a conversion rate of 11.09 shares per note.

Proceeds from the notes will be used to repay outstanding debt and to fund general corporate activities.

National Medical Enterprises, the nation's second-largest health care-services company, started a stock repurchase plan in September. To date, 5,350,000 shares have been repurchased at a cost of $128 million. The company plans to repurchase up to 10 million of the 78 million shares outstanding.

Since midsummer, the company has sold eight acute-care hospitals and converted three to psychiatric or substance-abuse treatment centers.

National Medical plans to focus on treatment centers that specialize in psychiatric care, substance-abuse care and physical rehabilitation.

Forum Group Inc., Forum Retirement Partners L.P., Forum Health Partners

Total financing $198,750,000
Public offerings:
Debt $100,000,000
No. of issues 1
Private placements $35,000,000
No. of issues 1
Partnership offerings $63,750,000
No. of issues 1
Key underwriter ..... Drexel Burnham

INDIANAPOLIS — The Forum Group Inc. in August raised $100 million by selling 6¼% convertible debentures due 2011. Other entities related to Forum tapped the capital markets for an additional $99 million in 1986.

Forum Group Inc. develops and operates residential units for the affluent elderly.

In December, Forum Retirement Partners L.P. sold five million preferred depositary units to raise $64 million. The partnership was formed to own residential units developed by Forum. These properties are leased or managed by Forum Group Inc.

Forum Retirement Partners L.P. absorbed another entity created by Forum Group Inc., Forum Health Partners, which in January raised $35 million in a private placement to finance a mortgage for four residential centers. Forum Retirement Partners L.P. offered common units of the partnership to Forum Health Partners in exchange for their interests in four residential centers.

Forum Retirement Partners L.P. used $10.5 million of the offering and the issuance of common units to Forum Group Inc. for cash to purchase the Forum Group's two-sevenths participation in the first mortgage of Forum Health Partners.

About $4.5 million of the proceeds were applied to the purchase of a residential center from Forum Group Inc. Another residential center was to be acquired from Forum Group Inc. with $21 million of the proceeds.

First mortgage debt owed by an affiliate of Forum Retirement Partners L.P. was to be retired with $10.2 million of the proceeds. Almost $1 million of the proceeds were applied to purchase the limited partnership's interest in an affiliate. The balance is to be used to purchase additional properties and refinance mortgage indebtedness.

Proceeds from the convertible offering were used to repay debt and finance the purchase of other residential units.

Maxicare Health Plans

Total financing $125,000,000
Public offerings:
Debt $125,000,000
No. of issues 1
Key underwriters ..... Salomon Brothers, Montgomery Securities

LOS ANGELES — Proceeds from Maxicare's September 1986 debt offering were applied to the $372 million purchase of Health-America Corp., which was completed in November.

Maxicare raised $125 million by selling 11¾% senior subordinated notes due 1996. Cash and bank borrowings funded the balance of the HealthAmerica acquisition. Debt and equity offerings in 1985 contributed to a $361 million cash position that enabled Maxicare to make acquisitions.

Maxicare, in October, completed the acquisition of Health-Care USA for $66.2 million. Liquid assets were used for that purchase.

Maxicare, a health maintenance organization, operates prepaid medical plans that entitle members to fixed-fee medical service provided by practitioners who work with the company.

Salomon Brothers Inc. was lead manager for the September offering; Montgomery Securities acted as co-manager.

Bank equity fund draws $4 million

MINNEAPOLIS — Marquette Bank Minneapolis' new select-value equity fund already has drawn more than $4 million in assets, all for tax-exempt employee benefit plans.

The fund, managed by Marquette Capital Management Corp., the bank's investment advisory subsidiary, uses a value-oriented style. It focuses on such variables as dividends to average yields, expected dividend growth and price and earnings values. Generally 40 to 50 stocks will be held in the fund. ■

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CHASE

Agencies active in 1986

FNMA, FHLMC, SLMA among innovative financiers

WASHINGTON — Three quasi-governmental agencies, the Federal National Mortgage Association, Federal Home Loan Mortgage Corp. and the Student Loan Marketing Association, were among the biggest and most innovative financiers in the market in 1986.

Here are thumbnail sketches on the financing activities and innovations of Fannie Mae, Freddie Mac and Sallie Mae.

• • •

Fannie Mae is a federally chartered, stockholder-owned corporation that operates a secondary market for home loans by purchasing mortgages and selling debt and mortgage-backed securities.

Fannie Mae's total debt issuance in 1986 amounted to $39.997 billion, which was used to finance the corporation's purchase activities in the mortgage market.

During 1986, the corporation continued to attract funds from a global investor base. There was heavy overseas demand for Fannie Mae dollar debentures and the yen-denominated debentures sold in the European and Japanese markets.

But direct overseas offerings played a smaller role in its financing activities in 1986 compared with previous years because of the attractive cost of domestically issued debt.

During 1986, Fannie Mae also added $67.6 million to stockholders' equity by issuing 11.5 million detachable common stock purchase warrants as part of a debenture offering.

In addition to the debt issues, Fannie Mae issued $60.56 billion of mortgage-backed securities, including $2.4 billion of an innovative new security called Stripped Mortgage Backed Securities.

Goldman, Sachs & Co. developed the SMBS idea and was underwriter for Fannie Mae's first such issue. An SMBS consists of two or more classes of securities. Each class represents a specified percentage of undivided ownership interest in the principal payments to be made on a pool of mortgage loans or mortgage-backed securities certificates and a different specified ownership interest in the interest payments on such a pool.

Additionally, an SMBS issue may be structured with separate classes for principal and interest. Traditional mortgage-backed securities give the investor an undivided interest in the entire pool of underlying mortgage loans.

The bulk of Fannie Mae's financing comes from the corporation's issuance of mortgage-backed securities. Those securities create a source of guaranty fee income, but without the fi-nancing risk associated with Fannie Mae's portfolio investing activities.

Most of the corporation's mortgage-backed securities are issued through lender swap transactions, whereby participating lenders place pools of mortgages in trust in exchange for securities.

Fannie Mae expects mortgage-backed securities will continue to grow through issuance of various types.

Also in 1986, Salomon Brothers Inc., working with Fannie Mae, issued $200 million of a then new security, known as a real estate mortgage investment conduit, tailored to meet the new tax law. REMICs operate like a trust for tax purposes but allow issuers more flexibility in structuring mortgage-backed securities. The offering was collateralized by mortgage-backed securities bought from Fannie Mae. Fannie Mae did not actually issue the securities itself.

• • •

Freddie Mac is a publicly chartered corporation, the preferred stock of which is owned by savings institutions and the purpose of which is to increase the availability of mortgage money for home loans. It does so primarily by buying mortgages from lenders and selling the mortgages as participation certificates, pledging them as collateral for Freddie Mac collateralized mortgage obligations.

The corporation issued about $102.3 billion in mortgage-backed securities, which financed almost all of the agency's needs. Debentures and discount notes aren't included in the total.

Of the total, Freddie Mac issued $100.1 billion in participation certificates, which are monthly pass-throughs and are considered a sale of assets, not a debt obligation. These include 15- and 30-year fixed-rate single-family mortgages and 10- and 15-year fixed-rate multifamily mortgages.

One innovative twist on the participation certificates was Freddie Mac's $335 million issue of them backed by adjustable-rate mortgages.

It was the first Freddie Mac participation certificate backed exclusively by recently originated 2% Treasury indexed ARMs offered to investors and marked the corporation's implementation of a program to finance the purchase of ARMs through the sale of mortgage-backed securities.

Under the ARM participation certificate program, Freddie Mac purchases ARMs from mortgage lenders for cash, and then forms pools of ARMs and sells the participation certificates backed by those pools to investors. Salomon Brothers was the lead manager.

In addition there was $1.85 billion in CMOs, and $381 million of a new security called Mortgage Cash Flow Obligations, another first for Freddie Mac.

MCFOs are unsecured general obligations of Freddie Mac with a structure similar to the Freddie Mac CMO. Unlike the CMO, however, the mortgages underlying the MCFO are not pledged in trust as collateral, nor are payments of principal and interest on the MCFOs secured by a lien on the underlying mortgages. Salomon Brothers was lead underwriter on the offering.

Freddie Mac underwrites the bulk of its issues. Only five Freddie Mac issues were underwritten or partly underwritten by Wall Street firms.

• • •

Sallie Mae is a federally chartered stockholder-owned corporation and the nation's major financial intermediary to the education market.

By buying insured student loans and providing other financial services to financial and educational institutions participating in the Guaranteed Student Loan Program, Sallie Mae replenishes local supplies of student credit.

The corporation uses a variety of debt instruments in both domestic and overseas markets to fund its operations. In 1986, the association raised $3.7 billion in net new funds.

Sallie Mae was the first to offer in the United States zero-coupon bonds denominated in a foreign currency. Shearson Lehman Brothers Inc. publicly offered the $140 million (U.S.) Australian dollar zero-coupon notes. After a separate currency exchange, Sallie Mae stood to net $74 million in proceeds and repay about $109 million at maturity.

The corporation also brought another new security to market, issuing a $53 million (U.S.) New Zealand-dollar note.

Sallie Mae also issued its first Eurobond offering, $100 million of seven-year Eurodollar notes; offered $300 million five-year notes with equity warrants and equity puts; and $250 million in yield curve notes.

Top 50 . . .

Continued from page 33

Indeed, all of the top five utility sector issuers — GTE Corp., Pacific Gas & Electric Co., NYNEX Corp., Southern California Edison Co. and Long Island Lighting Co. — cited lower interest rates and refinancing opportunities as reasons for their 1986 debt offerings.

For example, Southern California Edison's $1.2 billion in 1986 financing helped the utility in its redemption of $2.7 billion in debt. Pacific Gas used the $1.7 billion in proceeds from its offerings last year toward the redemption of $1.8 billion in existing debt.

In the manufacturing industry, Union Carbide Corp. made a tender offer at a premium for $2.5 billion in 13½% to 15% debt issued in early 1986 in a recapitalization plan designed to fend off hostile suitor GAF Corp.

While many of the largest issuers achieved their rankings as a result of acquisition activity, two that moved into the Top 50 were corporate spinoffs launching initial public stock offerings.

The Henley Group, composed of 35 former Allied-Signal Inc. businesses, raised $1.2 billion in an IPO that ranked it among the top five in the manufacturing industry. Coca-Cola Enterprises Inc., formed by The Coca-Cola Co. and managed by former Coke executives, raised $1.1 billion through an IPO that put it among the top five service company issuers.

Outside of the banking and finance arenas, total financing for the top five in the remaining eight industries was: $9.9 billion for manufacturing; $7.6 billion for service companies; $7.3 billion for utilities; $7 billion for natural resource companies; $4.3 billion for retail companies; $4 billion for transportation companies; $2.5 billion for rail/shipping concerns; and $1.7 billion for health care concerns.

Of the $85.8 billion raised by the Top 50 issuers, almost $79 billion stemmed from public and

Continued on page 49

New issues of corporate securities

March 16 — March 27

Issue date	Company	Amount ($ mil.)	Type of security	Offering price Debt (%) Share ($)	Gross spread as % offer price	Where traded (to list)	Managers
Debt							
3/26	CMO Trust 26	498.75	GNMA CMO	Market	Market	OTC	Salomon Brothers
3/19	Union Carbide Corp.	350.00	Sr. Sub. Note	99.24%	2.267	NY	First Boston
3/24	Coca-Cola Enterprises	300.00	Notes	99.65%	.652	OTC	Allen & Co./Merrill Lynch/Salomon (Books)
3/24	Coca-Cola Enterprises	300.00	Debs.	99.40%	.880	OTC	Allen & Co./Merrill Lynch/Salomon (Books)
3/23	Union Oil Co. of California	300.00	Notes	99.45%	.704	OTC	Merrill Lynch/Shearson Lehman
3/18	Union Carbide Corp.	300.00	Cvt. Sub. Deb.	100.00%	1.500	NY	First Boston/Morgan Stanley
3/23	Collateralized Mortgage Securities	287.50	FNMA CMO	99.91%	.576	OTC	First Boston
3/20	Security Pacific National Bank	270.00	Pass-thru	Market	Market	OTC	SEC-PAC-MERC/KP/SLB**
3/27	Time Inc.	250.00	Debs.	99.06%	.883	OTC	Salomon Brothers/First Boston
3/25	FBC Mortgage Securities Trust XII	250.00	Col. Bonds	99.94%	.500	OTC	First Boston
Common Stock							
3/26	Consolidated Rail Corp.	1456.00		$28.00	4.25	IPO (NY)	GS/FBC/MLCM/MS/SAL/SLB***
3/19	Colonial Municipal Income Trust	260.00		$10.00	6.00	IPO (NY)	MORGAN-KEEGAN/BATEMAN/PIPER****
3/19	Petrolane Partners	256.30		$20.50	6.83	IPO (NY)	KP/GS/MLCM/SLB/DWR*****
3/16	Rhone-Roulenc S.A.	82.00		$27.33	2.82	PAR (OTC)	Merrill Lynch/Drexel Burnham Lambert/SoGen Securities
3/27	Allstar Inns	72.90		$12.50	7.04	IPO (AM)	DBL/DWR/BATEMAN******
3/26	Applied Bioscience International	45.00		$15.00	5.80	IPO	Shearson Lehman/L.F. Rothschild
3/27	Harnischfeger Industries	42.50		$17.00	4.76	NY/PC	Shearson Lehman/Merrill Lynch
3/17	Eastern Utilities Associates*	36.60		$36.63	0.26	NY/PC	PaineWebber/Prudential-Bache/A.G. Edwards
3/18	Brinkmann Instruments	33.60		$10.50	7.05	IPO	Shearson Lehman/PaineWebber
3/27	Country Wide Transport Services	33.00		$15.00	7.00	IPO	Robinson-Humphrey

Source: Securities Data Co., New York
**Competitive*

Sr. Sub. Note: Senior subordinated note
Cvt. Sub. Deb.: Convertible subordinated debenture
FNMA CMO: FNMA-backed collateralized mortgage obligation
Pass-thru: Pass through securities
Col. Bonds: Collateral bonds, collateralized bonds, and collateral trust bonds
***Security Pacific Merchant Banking Group/Kidder Peabody/Shearson Lehman*
****Goldman, Sachs/First Boston/Merrill Lynch/Morgan Stanley/Salomon/Shearson Lehman*
*****Morgan Keegan/Bateman Eichler, Hill Richards/Piper, Jaffray & Hopwood*
******Kidder, Peabody/Goldman, Sachs/Merrill Lynch/Shearson Lehman/Dean Witter Reynolds*
*******Drexel Burnham Lambert/Dean Witter Reynolds/Bateman Eichler, Hill Richards*

NY: New York Stock Exchange
OTC: Over the Counter
IPO: Initial Public Offering
AM: American Stock Exchange
PAR: Paris Stock Exchange
PC: Pacific Stock Exchange

Variable rates . . .

Continued from page 6

premium. Although the premium generally would be capped at $100 per participant, it would be indexed to 150% of wage inflation.

"With no control over the assumptions used to calculate the (PBGC) deficit, and no clear picture of the basis that would be used to determine wage growth, we are reluctant to support any kind of automatic adjustments or indexing," Mr. Anderson said.

A Washington attorney representing the U.S. Chamber of Commerce dismissed the variable-rate premium as no more than a short-term revenue raiser.

Richard Fay, a partner with Reed, Smith, Shaw & McClay in Washington, said the answer to curbing the PBGC's financial problems is better pension plan-funding, not altering the PBGC premium structure.

"We would favor tighter funding standards" and not "monkeying around with the PBGC premium," Mr. Fay said.

He described as silly statements that a variable-rate premium would, by itself, lead to better pension funding.

But the concept received its strongest support from the National Association of Manufacturers.

Michael Gulotta, who testified on behalf of NAM and also is president and chief actuary of Actuarial Sciences Inc., Piscataway, N.J., labeled the current flat-rate premium an unjustified tax on well-funded pension plans.

"A variable-rate approach reflects reality — the reality that (poorly funded) plans represent the greatest risk to the PBGC," he said.

Mr. Gulotta likened the current premium to an insurance company charging the same rate for term life insurance for an 85-year-old as for a 25-year-old.

A representative of the General Accounting Office said a variable-rate premium would be more complex than the flat-rate structure, but would be more fair.

"We believe it is more equitable than the existing flat rate because those plans generally representing no immediate potential claim would pay the lowest premium," said Joseph Delfico, senior associate director of the GAO's Human Resource Division, in his written testimony.

PBGC Executive Director Kathleen P. Utgoff, the chief architect and proponent of the variable-rate premium, urged quick action on the proposal.

If the PBGC premium keeps rising, employers with well-funded plans, and that resent subsidizing the poorly funded plans, might begin to terminate their defined benefit plans, she said.

"It is the well-funded plans that we are worried about. They are the ones who could leave the system unless something is done" to stabilize premiums, she said.

Ms. Utgoff, in response to congressional questioning, denied a higher premium would place such a burden on a financially troubled company that it would file for bankruptcy, terminate its underfunded pension plans and dump the liabilities onto the PBGC.

The higher premium is not significant in terms of a company's ability to survive, she said, noting the cost of a bankruptcy filing alone might exceed the higher PBGC premium.

Ms. Utgoff also said that limiting so-called distress terminations of underfunded plans to those companies that are liquidating under Chapter 7 of the Bankruptcy Code is not a solution to the PBGC's financial problems.

Now, under a provision in the Single Employer Pension Plan Amendments Act of 1986, companies that have filed for reorganization under Chapter 11 can terminate underfunded plans if the bankruptcy judge approves.

Ms. Utgoff noted limiting such terminations to Chapter 7 companies probably would not prove effective in protecting the PBGC from big pension terminations.

A company in Chapter 11 could sell off assets to pay creditors and then, by the time it filed for Chapter 7, there would be few assets available for the PBGC, she said.

Ms. Utgoff agreed that other changes — principally requiring better funding of pension plans — are needed along with a variable-rate premium to bring new stability to the PBGC insurance program. ■

Top 50 . . .

Continued from page 48

private debt offerings, while $6.8 billion came from offerings of common and preferred stock.

Of the $14 billion raised in international transactions, $5.3 billion was generated through Eurodollar offerings and $8.7 billion was for debt offerings with interest or principal denominated in such currencies as the Australian or New Zealand dollar, Swiss franc, deutsche mark and yen.

International offerings by the Top 50 issuers accounted for 37% of the $38.3 billion raised by all U.S. issuers in the Eurobond market.

The Top 50 raised $76.7 billion in the foreign and domestic public markets, making up 24.2% of the $317 billion issued by U.S. companies worldwide. The remaining $9.1 billion in private placement transactions represents 8.8% of the $103.3 billion raised by U.S. companies in the overall private placement arena.

IDD bases a company's industry classification on which of its businesses generated the greatest percentage of revenue.

The rankings of the Top 50 issuers within each of the 10 industry categories were based by IDD on the net proceeds from public and private placement transactions. Only firmly underwritten public offerings were included for ranking purposes, while private placements included were those where the company used an investment bank as placement agent. Debt offerings had to carry maturities of at least a year to be included. In addition, each tranche of multiclass securities was counted as one issue.

Bank debt, on-going issuing facilities such as medium-term note programs, and tax-exempt offerings were not included in determining total financing for ranking purposes. However, individual profiles may include information on these types of transactions.

Also, IDD accumulates its private placement data from investment banking firms. For reasons of client confidentiality, the firms may not provide IDD with information on all private deals they arrange and, therefore, these numbers may not be complete. In cases where the issuer has supplied information on a private transaction not in IDD's data base, these transactions have been added to the totals. ■

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April 13, 1987

Advisers boost . . .

Continued from page 2

of investment managers outperformed the market.

AmeriTrust increased equity cash to 12% from between 8% and 10% at the end of 1986, said Richard Hyde, chief investment officer.

"We continue to be surprised (at the equity market) and we continue to be constructive, but are a little bit troubled. We feel the market is fairly fully valued by most benchmarks. What will cause it to go higher from here? We believe it could go higher, so we aren't going to make a major bet and raise cash to 30%. That's not our style. But the temptation is greater with each 100-point move in the market," he said.

Lincoln Capital raised its cash reserves to 8% from the 1% that was the lowest level of those contacted by *P&I Age* at year end.

J. Parker Hall III, president, said the increase was not because of market twists but "because some of the stocks we held at year-end outperformed the market and we trimmed back and just haven't reinvested the cash as yet."

Mr. Hall said Lincoln specializes in established growth companies and "we think they look quite attractive in the market today because (price-earnings ratios) are at a lesser premium to the market than in several years. I think we might well work this cash back into the market without worrying about a possible correction."

Lincoln has about $2.2 billion in equities under management.

Sun Bank reduced its cash reserve position to 7.5% from 14% at the end of 1986, said Anthony Gray, executive vice president.

"We sat around here on New Year's Eve and were modestly negative on the market and held 14% cash. The market had been drifting lower for four or five months and only a few stocks were doing well, most were doing poorly. We turned out not to be right; we had that cash invested the second day of the month," in time for the first-quarter market explosion.

Mr. Gray said no changes are anticipated in Sun Bank's current cash position. Sun Bank has about $5 billion in equities under management.

Harbor Capital Management reduced its equity cash reserves to 8% from 15% at the end of 1986 and put the money into the market, said Richard Spindler, investment officer.

"We started to get more active in the fourth quarter of 1986. It started slowly and kept up at a steady rate. Now we have the problem of what to do. At 8% there's not much leeway to do much of anything."

Harbor normally invests in growth and value stocks in almost equal proportions and has found it increasingly difficult to find acceptable value-oriented issues in the current market.

"I don't see us with zero cash anytime soon," said Mr. Spindler. "The 8% is high. But whether the market is overvalued or not, we're letting the pricing tell us. It is getting harder to find stocks."

Harbor manages about $700 million in equities.

Herb Hansen, president of Hansen Investment Management Co., said his firm began raising cash during the quarter as the market moved higher, ending the quarter with 13% cash, down slightly from 14.6% at the end of 1986.

"That's high for us. We tend to be fully invested but it is very hard to find value in this market. We don't like to pay more than market multiples."

Mr. Hansen said he is concerned about the currency crisis and the decline of the dollar internationally. "That's our big concern, but we are optimistic that the currency crisis will be resolved and then you can make a case for the S&P at 360 by the end of the year from about 290 now," he said. Hansen manages about $552 million in equities.

Sit Investment Associates Inc. reduced equity cash slightly in the first quarter to 10% from a 10% to 12% range in the fourth quarter of 1986.

"We took down some because equity assets went up. We sold some toward the end of the quarter," said Eugene Sit, president and chief investment officer. "We believe the market has been good and is due for a pause and we want to have some money just in case."

Mr. Sit said a market pullback of 100 to 150 points is possible sometime in the second quarter.

Sit manages about $2.4 billion in equities.

Alliance Capital Management held steady at 5% cash reserves in the first quarter, reflecting the company's desire to remain nearly fully invested.

"We think the U.S. market, among the world's capital markets, is reasonably valued and we think there will be a significant improvement in earnings and current market levels are justified. We aren't bearish," said Clint Kendrick, president.

Alliance has about $17 billion in equities under management. ■

Index funds top . . .

Continued from page 2

cific Gas & Electric Co., San Francisco, and $116 million in government bonds for the New York City Board of Education Pension Fund.

The firms that placed fourth and fifth did so because of annuity purchases by the Los Angeles County Employees' Retirement Association. This is the first time any managers placed in the top 10 because of annuities.

The Travelers Corp. received $254 million worth of business and Aetna Life & Casualty Co., $200 million. Both companies are in Hartford, Conn. Aetna also had a $30 million real estate account, for the Connecticut Trust Funds.

Bucking the passive trend were the funds hiring The Boston Co., Boston, for $144.8 million worth of active accounts. The firm's biggest chunk of business was a $116 million active equity account for the Mississippi Public Employees' Retirement System, Jackson.

Mellon Bank, Pittsburgh, had $120 million in new business reported — in government bonds for the New York City Board of Education fund.

Loomis, Sayles & Co. Inc., based in Boston but with offices around the nation, had $115 million in new assets reported. The largest account was $100 million in equities for Pacific Gas & Electric.

Oppenheimer Capital Corp., New York, received $104 million in new business for active equity strategies, with the largest client being AMA Advisers Inc., Chicago. Pacific Investment Management Co., Newport Beach, Calif., was a beneficiary of the New York City Board of Education's moves, winning a $94.4 million account for mortgage-backed securities.

Also during the first quarter, the California Public Employees' Retirement System established allocations for six managers it selected last year. These managers weren't listed as top managers for the first quarter because they already were recognized as such for the second quarter of 1986.

Managers and their assignments were Atalanta/Sosnoff Capital Corp., New York, $500 million in equities; Dimensional Fund Advisors Inc., Santa Monica, Calif., $500 million in small-capitalization equities; Fidelity Bank, Philadelphia, $200 million in equities; First Chicago Investment Advisors, Chicago, $500 million as a swing manager; Lazard Freres Asset Management, New York, $500 million in equities; and TSA Capital Management, Los Angeles, $250 million in equities.

Munder Capital Management Inc., Detroit, had a new $350 million fixed-income account from the Kentucky Retirement Systems, Frankfort, reported in the quarter, but it was advisory only.

Analytic Investment Management Inc., Irvine, Calif., and Balch, Hardy & Scheinman Inc., New York, each won the assignment to write options on up to $150 million of the Houston Policemen's Retirement System's equity assets.

In terms of number of new accounts, Morgan Stanley & Co., New York, led with 10 tax-exempt funds committed to a venture capital limited partnership.

Bankers Trust followed with eight and Loomis, Sayles with six. Heitman Advisory Corp. and JMB Institutional Realty Corp., both of Chicago, had five each.

Managers with large or multiple accounts terminated, according to *P&I Age* reports during the quarter, included Alliance Capital Management Corp., New York, which saw $350 million in active equities reassigned by the New York City employees' and Fire Department systems; BEA Associates Inc., New York, which had $264.7 million reassigned by the New York employees' and police funds; Pioneering Management Corp., Boston, with a $120 million account terminated by the Baltimore Employees' Retirement Systems; and ABD International Management Corp., New York, which, following staff changes, was terminated by American Information Technologies Inc., Chicago; NYNEX Corp., New York; Pacific Telesis Group, San Francisco; and The Common Fund, Fairfield, Conn. ■

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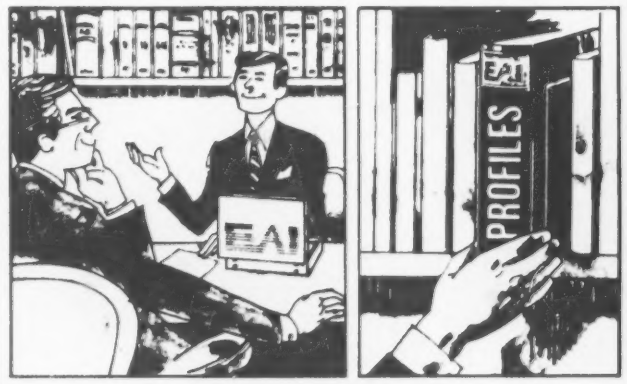

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Growth slows . . .

Continued from page 3

ecutives to accept portfolio insurance takes a long time. "It's just a fairly long educational process," said Bob Haber, vice president of Wells Fargo.

Future growth may come among small funds, said Pete Thomas, vice president of Skye Investment Advisors Inc., Cupertino, Calif.

Skye provides portfolio insurance for small funds through a pooled fund at Massachusetts Mutual Life Insurance Co., Springfield, and for larger funds through RepublicBank Dallas.

Some managers said pension fund officers' approach to portfolio insurance is changing, in some cases to an emphasis on protecting the surplus assets of pension funds.

"They're really beginning to focus on the surplus and look at assets less liabilities," said Jeff Geller, vice president and principal of BEA Associates Inc., New York.

Financial Accounting Standards Board Statement 87, providing for balance sheet recognition of pension fund surpluses or deficits, has brought this about, the managers said.

Still, what has been the standard reason for using dynamic hedging has not vanished. "Just because you're hearing a lot about FASB 87 doesn't mean that people have forgotten about protecting gains," Mr. Geller said.

The rampaging stock market has given many pension funds gains to protect. But dynamic hedging managers differ on whether the bull market has encouraged or discouraged business.

"You know the saying, 'I'm not going to get insurance until my neighbor's house burns,' " said Jim Donegan, senior vice president and partner of Westridge Capital Management, Los Angeles, supporting the view that many pension executives will wait until the bull market runs its course before trying to protect assets.

In a bear market, he said, "I'm looking for the floodgates to open dramatically. They're going to come running and they're going to want the insurance then."

Added William O. Melvin, director of investments for Webster Capital Management, New York: "I think the enthusiasm (for portfolio insurance) has definitely been postponed because of the bull market." Webster just began to market portfolio insurance.

Still, while the bull market may have lulled some people into expecting perpetual prosperity, it has moved others toward protective strategies to lock in gains, said John O'Brien, chairman and chief executive officer of LOR.

Interest in using dynamic hedging for bond portfolios also is growing. In a bear bond market — with rising interest rates lowering the market value of lower-interest bonds — greater numbers of pension funds may seek this strategy, managers said. To date, just a few billion dollars' worth of pension fund bond holdings have been hedged dynamically.

Even though their overall trend was upward, the financial markets have been volatile, raising the cost of dynamic hedging for many investors (*Pensions & Investment Age*, March 23).

"The sponsor community is just becoming much more educated about the pros and cons of insurance strategies, particularly the cons, with costs exceeding expectations," said Tim Taussig, manager of client development for BEA.

That is leading to more customizing of strategies to minimize the number of times pension funds have to face higher-than-expected costs, Mr. Taussig said. Pension executives have realized short-term insurance with a high floor return is expensive, so they are adjusting their parameters and, in some cases, becoming sellers as well as buyers of the insurance, he said.

Pension funds become sellers of insurance by taking the other side of the trades made by those buying it. Buyers of insurance, in most of the strategies, sell futures short; sometimes, these futures are underpriced when the insurance program kicks in.

Investors who take the other side of these trades do so because they see an arbitrage opportunity in buying the cheap futures and selling the more expensive stock holdings. This strategy is becoming increasingly popular with pension funds (*P&I Age*, April 6). Many of the managers offering portfolio insurance also offer this form of arbitrage. ■

Integration . . .

Continued from page 54

Stephen Ross and Richard Roll, academicians turned money managers, developed the arbitrage pricing theory model several years ago. The model, marketed by Ross and Roll Asset Management, Philadelphia, concentrates on a comprehensive breakdown of risk and is flexible in that it adapts to the needs of the individual pension fund.

They say that because not every investor shares the same beliefs, requirements and desires, a customized approach makes sense. One pension executive may have a strong conviction the business cycle will soon meet an unexpected decline and may want to recycle the weighting against the stocks most affected by the exposure.

In their view, the pension fund executive could use the portfolio as insulation against operational risks. Because pension funds represent a significant portion of total corporate assets, managers may want to hedge the business risks of a company. That would require using a different investment objective than outperforming the S&P 500.

Stephen Berkowitz and Dennis Logue of Berkowitz, Logue & Associates, Columbia, Md., longtime backers of the integration concept, are about to launch a product along this line.

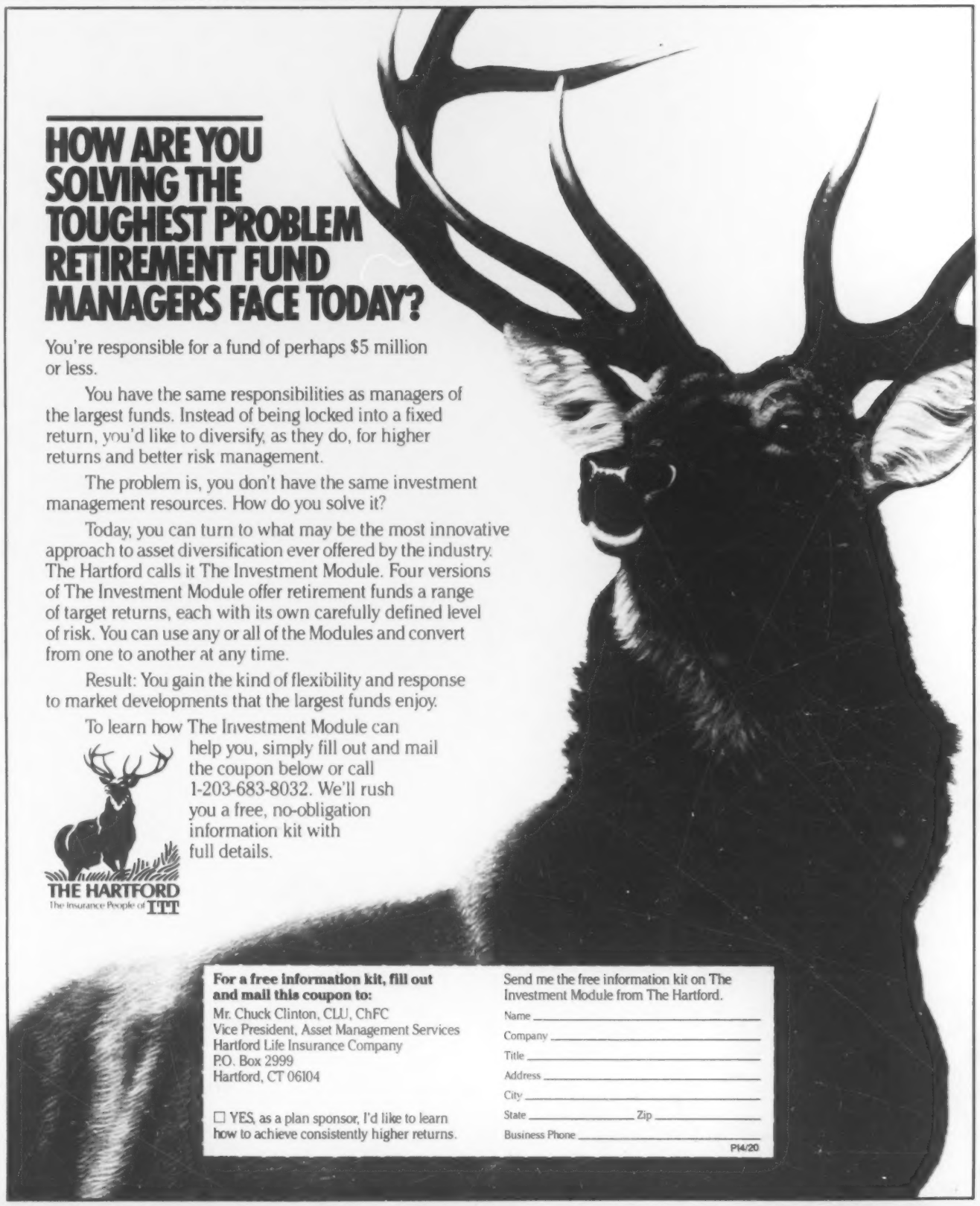
Mr. Berkowitz said there are obstacles. One, he explained, is pension fund managers are judged on whether they beat the S&P 500, and that benchmark wouldn't be pertinent using the integration strategy.

"If a pension plan manager were asked if he beat the S&P 500 and he didn't own a major industry sector in order to offset some corporate characteristic, he'd be in trouble," Mr. Berkowitz said, adding customized indexes will have to be designed for that purpose.

Jack L. Treynor, president of the Los Angeles investment management firm by the same name, cited another roadblock.

"People who hire and fire aren't taking the broad view. They are taking the pension balance sheet in isolation. To change that you have to get to the investment committees of the board of directors," Mr. Treynor said. ■

The current accounts section is a cross-reference to manager hirings reported in *Pensions & Investment Age*. The current accounts section is published quarterly.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